The GEO Group, Inc.

2003 Annual Report

The GEO Group, Inc.

The GEO Group has restated its financial statements for the fiscal years 2002, 2003 and 2004. As a result, the financial information contained in this Annual Report for those years may not be relied upon.

The restated financial statements as filed with the Securities and Exchange Commission on August 17, 2005 on Form 10-K/A can be found under the SEC Filings Section of The GEO Group's Investor Relations webpage at www.thegeogroupinc.com, or at the Securities and Exchange Commission's website at www.sec.gov.

"We've changed our name to The GEO Group, Inc. GEO is derived from the Greek word for "world" and symbolizes our status as a global provider of diversified, outsourced government services. Although our name has changed, our values remain the same: to strive for high quality, efficiency and innovation in the delivery of these services to our clients, wherever they may be in the world."

George C. Zoley
Chairman and Chief Executive Officer

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Company Profile

The GEO Group, Inc. is a world leader in the delivery of correctional, detention, health, mental health and other diversified services to government agencies around the globe. Through its team of approximately 9,000 professionals, The GEO Group develops and implements tailored business solutions that meet the needs of government clients throughout the world.

The Company provides innovative, turnkey programs for the design, construction, financing and management of:

- State-of-the-art correctional and detention centers, including those focused on education, substance abuse treatment, counseling, work programs and community corrections services; and
- Medical and mental health rehabilitation facilities.

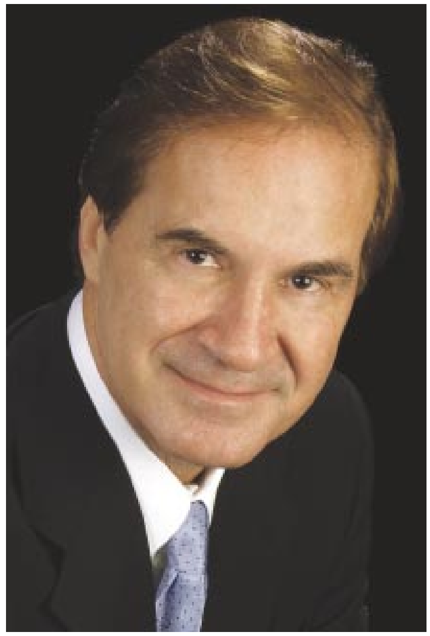
The Company also provides a range of other diversified services. As of December 28, 2003, The GEO Group had operations in the U.S., Canada, Australia, New Zealand and South Africa, managing 41 facilities with a total design capacity of approximately 36,000 beds. The GEO Group holds a 22 percent share of the U.S. private correctional market and a 24 percent share of the international private correctional market.

The GEO Group, Inc., under its former corporate name, Wackenhut Corrections Corporation, became a publicly traded company in 1994 and is listed on the New York Stock Exchange under the symbol GGI. For more information on The GEO Group, Inc. please visit the Company's web site at www.thegeogroupinc.com

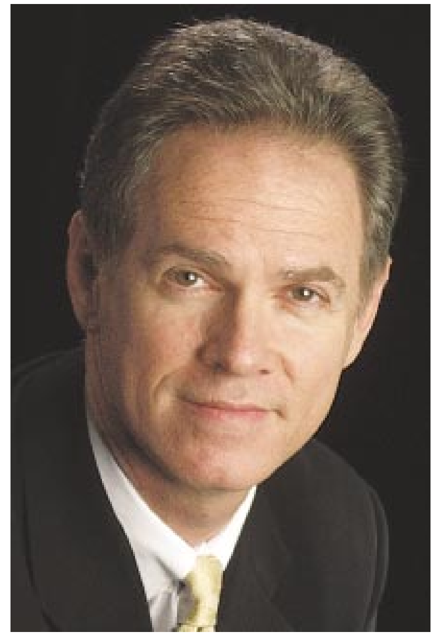
Financial Highlights

(In thousands, except per share data)	2003	2002	2001	2000	1999
Total Revenues	$617,490	$568,612	$562,073	$535,557	$438,484
Income Before Income Taxes and Equity in Earnings of Affiliates	$ 79,556	$ 28,933	$ 24,865	$ 20,856	$ 31,103
Net Income	$ 45,268	$ 21,501	$ 19,379	$ 16,994	$ 21,940
Diluted Earnings Per-Share	$ 2.86	$ 1.01	$ 0.91	$ 0.80	$ 1.00
Working Capital	$ 72,207	$ 64,589	$ 67,887	$ 56,001	$ 79,377
Total Assets	$507,290	$402,658	$242,023	$223,571	$204,425
Shareholders' Equity	$ 86,959	$152,642	$130,361	$127,164	$118,684
Diluted Weighted Average Common Shares Outstanding	15,829	21,364	21,261	21,251	22,015

SHAREHOLDER LETTER



George C. Zoley
Chairman and
Chief Executive Officer



Wayne H. Calabrese
Vice Chairman, President and
Chief Operating Officer

To Our Shareholders:

The GEO Group, Inc. is truly one of the great business success stories of our time. Since our early days as a corrections subsidiary of The Wackenhut Corporation, our company has undergone a world of change. Along the way, we have evolved into a world leader in correctional management, medical and mental health rehabilitation, and other diversified services.

We are deeply proud of our remarkable growth – and particularly pleased with the tremendous strides that we made in 2003. During the year, we achieved a number of milestones that transformed our Company into an independent enterprise, with a solid financial position, enhanced access to the capital markets, a new corporate brand identity, new world headquarters, and the freedom to pursue additional growth opportunities. These collective accomplishments made 2003 an exceptional period in our 20-year history and positioned us for a future that, until now, was beyond our reach.

"During the year, we achieved a number of milestones that transformed our Company into an independent enterprise, with a solid financial position, enhanced access to the capital markets, a new corporate brand identity, new world headquarters, and the freedom to pursue additional growth opportunities."

Becoming a Truly Independent Company

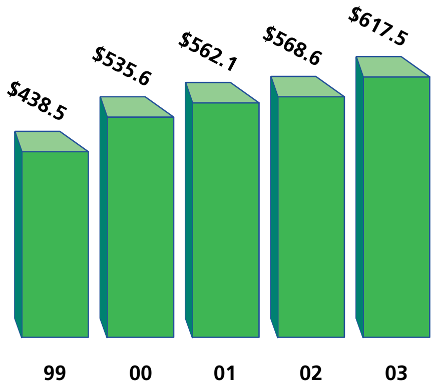
One of the most important events for our Company during 2003 was our decision to strike out on our own and take control of our destiny. We achieved this independence by expending $132 million to purchase 12 million shares of Wackenhut Corrections Corporation's common stock that was held by our former majority shareholder, Denmark-based Group 4 Falck A/S.

Our goal in this effort was threefold: to gain greater operating autonomy; to enhance our access to the capital markets so we could finance our growth; and to create long-term shareholder value by eliminating the investor uncertainty created by the "overhang" of majority ownership. We facilitated the transaction by refinancing our $150 million senior secured credit facility and issuing $150 million in 8.25 percent 10-year senior unsecured notes. In the process, we earned stable ratings from the two top rating agencies.

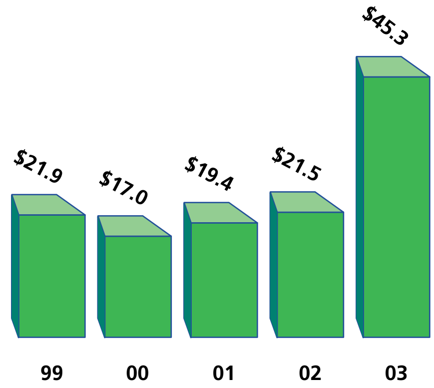
In conjunction with this transaction, we sold our 50 percent interest in our U.K. joint venture, Premier Custodial Group Limited, to our joint venture partner, Serco Investments Limited. This move satisfactorily resolved a legal challenge that had been triggered by a change of control clause in our joint venture agreement, which came into play upon the sale of The Wackenhut Corporation to Group 4 Falck. The sale yielded $80 million in pre-tax cash – $52 million in after-tax proceeds – which we have earmarked for acquisitions to drive the growth of our business.

One of the terms of our share purchase agreement with Group 4 Falck required us to change our name from Wackenhut Corrections Corporation to one that could not be confused with that of our former parent, The Wackenhut Corporation. With shareholder approval, we adopted a new corporate name: The GEO Group, Inc. GEO, derived from the Greek word for "world," reflects our position as a world leader in the delivery of diversified government services, as well as our global vision to pursue new business opportunities in diversified areas.

To solidify our independence, we made a commitment to transition seamlessly from dependence on the support services of our former parent to full self-sufficiency, with our own information technology systems, as well as tax, payroll, human resources and risk management departments. We also relocated our world



Revenue
(in millions)



Net Income
(in millions)

headquarters from Palm Beach Gardens, Fla. to Boca Raton, Fla., which has provided us with room to accommodate our new, in-house corporate services.

Enhancing Shareholder Value

All of our strategic measures in 2003 were implemented with an intensive focus on building shareholder value. Our efforts in this regard were highly successful. Our strategic initiatives, combined with a rise in investor confidence related to the resolution of our corporate ownership, resulted in an increase in our stock price to $22.80 on December 31, 2003 from $11.11 on December 31, 2002 – an appreciation in shareholder return that was as impressive as it was gratifying. We underscored our commitment to enhancing shareholder value by adopting a new shareholder rights plan, which is similar to plans that have been adopted by many public companies. We believe that this plan protects the interests of all of our shareholders and enables us to pursue our business strategies in the years to come.

Gaining Traction in Our Daily Business Operations

While we executed our strategic initiatives, we also gained new traction in our day-to-day operations, driving our financial performance to record heights in 2003. Revenues rose to $617.5 million, compared with $568.6 million in 2002. Net income increased to $45.3 million, compared with $21.5 million at the prior year end. Earnings per share increased to $2.86 compared with $1.01 in 2002.

Our outstanding 2003 financial achievements were driven by our ongoing success in serving the needs of new and existing clients around the world, as well as by strong industry trends that bode well for the global expansion of our business. Our North American corrections business continued to grow, as did customer satisfaction with our prison design, construction, financing and management capabilities – combined factors that resulted in a 56 percent win rate of contracts upon which we competitively bid during the year. We continued to set new performance standards in Australia and South Africa, earning ISO 9001:2000 certification for South Africa's Kutama Sinthumule Prison, an achievement that is unprecedented on the African continent. In our diversified services business, the State of Florida Department of Children and Families awarded us a renewed five-year management contract to operate the

"One of the most important events during 2003 was our decision to strike out on our own and take control of our destiny."

South Florida State Hospital, and we continued to work diligently to lay the groundwork for other such initiatives in the future.

Defining Our Strategic Goals for the Future

With our remarkable financial and operating results in 2003 behind us, we look to the future with confidence and determination. As we steer our own course in the months and years ahead, we will focus on executing our internal and external growth strategy. This calls for us to expand our domestic and international correctional management services, our management services for mental health and special needs facilities, and our other related management services, all while making complementary acquisitions that contribute to our earnings.

As we work toward this goal, we will draw on the inherent strengths that make The GEO Group, Inc. a leader in our industry. One of these strengths is also our Company's hallmark – namely, our stable and experienced leadership team. Our combined senior management group has more than one hundred years of industry experience. It also enjoys a reputation as a group of disciplined decision-makers who expertly balance risk and reward. Our corrections professionals, including our Facility Administrators and Assistant Facility Administrators, are equally skilled in their fields, and have demonstrated an extraordinary capacity to operate safe, secure and orderly facilities in accordance with industry-leading standards.

Our U.S. infrastructure provides us with the solid foundation we need to support our growth. We have invested significantly in a decentralized operating structure with three regional offices that position our managers – and the functional experts who support them – close to our customers, enabling our professionals to work proactively and to resolve issues efficiently. This creates stronger relationships with clients, improved oversight of field operations, greater financial accountability, and increased responsiveness to problems.

Our longstanding relationships with diverse clients around the world provide us with predictable earnings and steady cash flow to advance our growth. We have worked with some of our customers for nearly two decades, and we have built our relationships on confidence, trust and consistent performance.

Strong industry fundamentals

"As we head toward our 20th anniversary, we are confident that our best days are still ahead – and that The GEO Group's success story has only just begun."

also strengthen our outlook.

In the U.S., governments spend over $50 billion annually on corrections, while outsourcing just six percent of their inmates to private operators. More and more countries around the world are seeking public-private partnerships to help them cope with rising prison populations and increasing numbers of illegal immigrants. And in the mental health arena, approximately 200 U.S. state and county hospitals – our target market – represent the single largest segment in mental health care today. All of these factors favor growth opportunities for our Company in the future.

Reflecting on Twenty Years of Experience

Our Company, our industry and the market in which we operate have changed dramatically over the last two decades. There was a time, not long ago, when some questioned the future of the privatized corrections industry. Since then, our industry has worked hard to earn the acceptance, respect and confidence of our government clients. In doing so, we have matured to a point that these customers now recognize that privatized corrections are a permanent and integral part of the corrections system at the federal, state and local levels.

Just as our industry has grown and changed, so has our Company. Since 1986 when we signed our first contract to design, build and operate a 150-bed Federal Immigration Processing Center in Aurora, Colo., we have expanded and grown as a world leader in government-outsourced correctional management, medical and mental health rehabilitation services, and other diversified government-outsourced services.

As we head toward our 20th anniversary, and into our 10th year as a public company, we are confident that our best days are still ahead – and that The GEO Group's success story has only just begun.

George C. Zoley
Chairman and
Chief Executive Officer

Wayne H. Calabrese
Vice Chairman, President and
Chief Operating Officer

DIRECTORS AND SENIOR OFFICERS

Board of Directors (left to right)
Richard H. Glanton, G. Fred DiBona, Jr., Wayne H. Calabrese, George C. Zoley, Norman A. Carlson, Benjamin R. Civiletti, Anne N. Foreman

Board of Directors

George C. Zoley
Chairman of the Board and Chief Executive Officer

Wayne H. Calabrese
Vice Chairman, President and Chief Operating Officer

Norman A. Carlson
Former Director, Federal Bureau of Prisons

Benjamin R. Civiletti
Former Attorney General of the United States;
Chairman of the law firm Venable, Baetjer & Howard

G. Fred DiBona, Jr.
President and Chief Executive Officer, Independence Blue Cross

Anne N. Foreman
Former Undersecretary, United States Air Force

Richard H. Glanton
Senior Vice President, Corporate Development, Exelon Corporation

Senior Officers

Pictured on the left:
George C. Zoley
Chairman of the Board and Chief Executive Officer

Wayne H. Calabrese
Vice Chairman, President and Chief Operating Officer

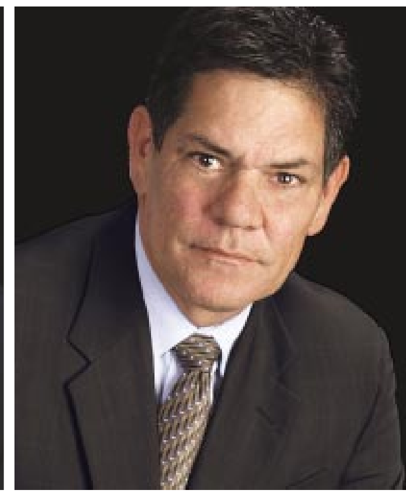
Pictured below:
John G. O'Rourke
Senior Vice President and Chief Financial Officer

John J. Bulfin
Senior Vice President, General Counsel and Secretary

Donald H. Keens
Senior Vice President, International Services

John M. Hurley
Senior Vice President, North American Operations



The GEO Group, Inc.'s stable and experienced management team is unique in our industry. Collectively, our senior executives have more than 100 years of industry experience. They manage our Company as a strong and cohesive group, with a level of professional excellence, expertise, commitment and dedication that is unsurpassed in our business.

The GEO Group is organized around a decentralized regional office infrastructure, which positions our managers "on the front line," enabling them to identify issues and resolve them swiftly and efficiently. Each of our three regional offices is led by a Regional Vice President, and each is strategically located for maximum geographic coverage: the Eastern Region is headquartered in Palm Beach Gardens, Florida; the Central Region is located in New Braunfels, Texas; and the Western Region is based in Carlsbad, California. Our unique ability to serve the day-to-day needs of our clients in a highly effective manner creates strong and long-lasting customer relationships. It also improves communication with our clients, facilitates oversight of our field operations, promotes greater financial accountability, and positions us to seize new growth opportunities in the future.

NORTH AMERICAN SERVICES

The 300-Bed Broward Transition Center, located in Deerfield Beach, Florida, houses up to 250 female detainees for the Bureau of Immigration and Customs Enforcement (BICE) and up to 50 male and female sentenced adults for the Broward Sheriff's Office (BSO). The Center provides a full range of residential services including food, laundry and health care as well as vocational and educational programs.

Leveraging New Growth Opportunities in North America

The total number of inmates in U.S. custody has risen at a compound annual growth rate of 6.1 percent since 1982. As a result, there are more than two million inmates in prison today – more than ever before in U.S. history.

These demographics were reflected in the average occupancy of our U.S. correctional facilities, which reached 100 percent in 2003. These strong occupancy levels are directly tied to high levels of satisfaction on the part of our federal, state and local government agency customers with our U.S. correctional operations, our responsive service, and our ability to address their needs. Our clients' satisfaction was demonstrated in 14 new, renewed or expanded contracts that we were awarded during 2003. Collectively, these contracts represented approximately 14,600 beds that were either added to or retained by our North American corrections and detention business.

Among these contracts was an agreement with The Commonwealth of Virginia Department of Corrections for the operation of the Lawrenceville Correctional Center, a 1,536-bed, medium-security, adult male prison in Lawrenceville, Va. This

Our clients' satisfaction was demonstrated in the 14 new, renewed or expanded contracts that we were awarded during 2003.

Top Photo: The 1,918-Bed Lawton Correctional Facility, located in Lawton, Oklahoma, became the first private correctional facility in the world to receive accreditation from the Correctional Education Association (CEA). **Bottom Photo**: The 2,048-Bed Taft Correctional Institution, located in Taft, California, is under contract with the Federal Bureau of Prisons (BOP) and marked the first time the BOP contracted out the management of one of its major facilities.

The 784-Bed Western Region Detention Facility, located in San Diego, California, provides secure care, custody, and control for U.S. Marshals prisoners. This facility, extensively renovated by The GEO Group, houses both male and female prisoners including pretrial prisoners and sentenced felons awaiting transfer to the Federal Bureau of Prisons.

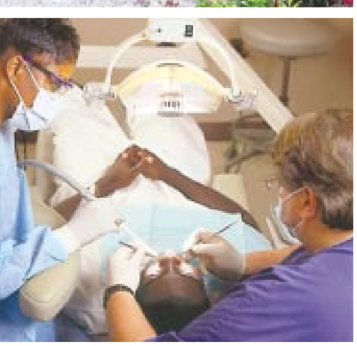
five-year contract marks our first foray into operating a correctional facility in Virginia. These contracts also included an agreement with Reeves County, Texas for the management of the 3,064-bed Reeves County Detention Complex. The GEO Group's ability to secure such important contracts represents a clear endorsement of our capabilities by our valued government agency customers, as well as a clear indication of our outstanding competitive position in our industry, which continues to show solid growth potential and favorable trends.

We believe that these trends will continue in the years to come. Since September 11, 2001, the federal government has vastly increased its focus on U.S. detention policies and on protecting the security of our homeland. President George W. Bush has allocated more than $800 million for the Office of Federal Detention Trustee to contend with an expected increase in incarceration and detention rates at federal facilities, including facilities for the Bureau of Immigration and Customs Enforcement and the U.S. Marshals Service. We believe that we are well positioned to benefit from the public-private partnerships that may arise as a result of these directives.

At the same time, overcrowding of prisoners in federal, state and local institutions continues to be at very high levels, and many

We expect many new project opportunities at the local, state and federal levels, with the ability to compete for between 20,000 and 26,000 beds, including the expansion of between 1,000 and 1,500 beds at several of our existing facilities.

Top Photo: The 1,200-Bed Rivers Correctional Institution, located in Winton, North Carolina, provides comprehensive correctional services for the Federal Bureau of Prisons. The facility, designed and constructed by The GEO Group, was completed in 365 days. **Bottom Photo**: The 480-Bed Michigan Youth Correctional Facility, located in Baldwin, Michigan, provides housing and rehabilitation programs for young male offenders who have been adjudicated as adults.



Top Photo: The 1,000-Bed Lockhart Secure Work Program Facilities, located in Lockhart, Texas, provide a range of rehabilitation programs including education, pre-employment training, life skills training, counseling, and substance abuse programs for 500 male and 500 female offenders. **Bottom Photo**: The 1,200-Bed Lea County Correctional Facility, located in Hobbs, New Mexico, was designed and constructed by The GEO Group. The facility has maintained a 100% accreditation score with the American Correctional Association (ACA) since its opening. **Far Left Photos**: Horticultural Programs and Correctional Health Services are components of the full range of services provided by The GEO Group.

The 1,318-Bed South Bay Correctional Facility, located in South Bay, Florida, houses adult male offenders for the State of Florida. This facility provides an array of rehabilitation services.

correctional systems are operating well beyond their capabilities. Indeed, some state correctional systems are sending thousands of inmates to other states, sacrificing jobs and tax revenues, and separating prisoners from their families. State legislatures are under increasing pressure to maintain consistent or greater incarceration rates within tighter budgetary constraints. We anticipate that a number of states will build public-private partnerships as a cost-effective way to maintain high service levels, reduce overcrowding, retain jobs and boost tax revenues. With our Company's reputation for customer satisfaction, our ability to provide superior services at lower costs, our efficient decentralized regional infrastructure, and our proven expertise in privatized corrections and detention, we expect to benefit substantially from these new partnerships.

As we move forward, we will leverage new growth opportunities within the privatized corrections market, while seeking to acquire companies that complement our core capabilities and add value to our client relationships. During the next 12 to 18 months, we believe that we will gain exposure to many new project opportunities at the local, state and federal levels with the potential to compete for between 20,000 and 26,000 beds, including the possible expansion of between 1,000 and 1,500 beds at several of our existing facilities.

INTERNATIONAL SERVICES

The 750-Bed Junee Correctional Centre, located in Junee, New South Wales, Australia, provides offenders with opportunities to acquire enhanced educational, vocational, and social skills through a variety of rehabilitation programs. The facility became the first correctional centre in Australia to achieve the coveted 5 Star Grading Award from the National Safety Council of Australia, Ltd. (NSCA).

Setting New International Performance Standards

During 2003, The GEO Group Inc. remained the only publicly traded U.S. corrections company operating on an international basis.

Working through our South African joint venture, South African Custodial Services (SACS), we continued to set the benchmark for correctional services in South Africa in 2003. Our 3,024-bed Kutama Sinthumule Maximum Security Prison (KSMSP) has dramatically raised the standards of the country's correctional services, instituting "best practices" to deliver secure facilities, quality services and rehabilitation. It has also boosted the economy through substantial investments and provided support in terms of empowerment of previously disadvantaged people. In 2003, after only 18 months in operation, KSMSP became the first prison on the African continent to earn ISO 9001:2000 certification, underscoring the quality of the facility's management systems and processes. We intend to capitalize on our success, compete for new contracts in South Africa and play an even greater role as a private partner to the government.

During 2003, our subsidiary Australasian Correctional Management (ACM), now known as The GEO Group Australia,

In 2003, after only 18 months in operation, Kutama Sinthumule became the first prison on the African continent to earn ISO 9001:2000 certification.

Above: The 3,024-Bed Kutama Sinthumule Maximum Security Prison, located in Louis Trichardt, Republic of South Africa, represents one of the first prisons to be privatized by a government on the African continent. **Far Right Photos**: Sophisticated central control rooms and employee training programs ensure the delivery of superior correctional services by The GEO Group.

maintained a strong corrections profile managing 2,265 beds in Australia, while working with Australia's government agencies to find solutions to the correctional and detention challenges facing them. The GEO Group Australia also continued its strong presence in New Zealand through its management of the Auckland Central Remand Prison, a maximum-security facility that is the first privately managed prison in New Zealand and the only facility in that country with AS/NZS ISO 9002 Certification.

Although our U.K. presence was curtailed by the sale of our 50 percent interest in our joint venture, Premier Custodial Group Limited, we have moved aggressively to identify business opportunities that will reestablish our regional presence. The government has dictated that all new corrections centers be designed, constructed, managed and financed by the private sector. This has given rise to a host of new opportunities for our Company, which we expect to pursue in the future.

We will also continue to assess prospects in other international markets to partner with government agencies seeking cost-effective correctional management. Prison populations around the world are escalating, and there is rising demand for privatized correctional and detention services. We expect a number of opportunities internationally over the next 12 to 18 months that could represent as many as 17,000 new beds.

MENTAL HEALTH SERVICES

Atlantic Shores Healthcare's 325-Bed South Florida State Hospital, located in Pembroke Pines, Florida, is under contract with the Florida Department of Children and Families. This represents the first comprehensive privatization of a state mental health hospital in the United States. Exceptional management and treatment programs resulted in the state exercising its renewal option for an additional five years.

Gaining Recognition for Mental Health Services Expertise

Millions of adults and children in the U.S. are disabled by mental illness every year, and the annual combined cost of those illnesses is a staggering $79 billion.

Studies have shown that most individuals could recover from mental illness if they had access to innovative treatment and active support. In addressing this issue, President George W. Bush's Freedom Commission on Mental Health released a report in July 2003 on the nation's public and private providers' mental health service delivery systems. The report recommended transforming how mental health care is delivered in America, with the goal of facilitating recovery and speeding patients' reintegration into the community.

The GEO Group did our part in 2003 by advancing the efforts of our mental health privatization initiative, which is spearheaded by our subsidiary, Atlantic Shores Healthcare, Inc. During the year, we continued to work with the State of Florida Department of Children and Families in our landmark public-private partnership under which we manage and operate the South Florida State Hospital in Pembroke Pines, Fla. Since we took over the hospital in 1998, we have worked closely with mental health advo-

In 2003, the State of Florida Department of Children and Families acknowledged our transformation of the South Florida State Hospital into one of the best state mental health hospitals in the country by renewing our management contract for a new five-year period.

Above: Aerial view of the South Florida State Hospital. **Far Right Photos**: Active medical treatment and innovative rehabilitation programs are key components of The GEO Group's mental health services offerings.

cates, consumers and other stakeholders to upgrade its mission from custodial to active care, and to sharpen its focus on recovery and successful community reintegration.

In 2003, our public partner acknowledged our transformation of this facility into one of the best state mental health hospitals in the country by renewing our management contract for another five-year period. We received additional recognition from The Joint Commission on Accreditation of Healthcare Organizations, which re-accredited the facility in 2002, indicating that we operate at our industry's highest standards and institute several "best practices" that serve as a model for others.

South Florida State Hospital is a clear example of our expertise in the construction, financing and management of state mental health facilities. It also demonstrates how we intend to deliver improved mental health services throughout the country. We made progress toward this goal in 2003 as we continued to lay the groundwork for future public-private partnerships in Texas, where lawmakers passed legislation to permit the state to partner with the private sector to manage one of its existing state mental health hospitals and construct, finance and manage a new facility. In the meantime, we continue to work diligently in several other states to gain commitments from legislators to sponsor similar legislation over the next two years.

FACILITIES AND OPERATIONS (As of December 28, 2003)

North American Services

Location	Facility Type	Capacity
Federal Jurisdictions		
Aurora BICE Processing Center (CO)	Immigration Detention-Male/Female	340
Queens Private Correctional Facility (NY)	Immigration Detention-Male/Female	200
Rivers Correctional Institution (NC)	Adult Male Low Security	1200
Taft Correctional Institution (CA)	Adult Male Low/Minimum Security	2048
Western Region Detention Facility at San Diego (CA)	Adult Male/Female Detention-Maximum Security	784
State Juridictions		
California		
Central Valley Modified Community Correctional Facility	Adult Male Medium Security	550
Desert View Modified Community Correctional Facility	Adult Male Medium Security	568
Golden State Modified Community Correctional Facility	Adult Male Medium Security	550
McFarland Community Correctional Facility	Adult Male Minimum Security	224
Florida		
Moore Haven Correctional Facility	Adult Male Medium Security	750
South Bay Correctional Facility	Adult Male Close/Medium Security	1318
Louisiana		
Allen Correctional Center	Adult Male Medium/Maximum Security	1538
Michigan		
Michigan Youth Correctional Facility	Male Juveniles Adjudicated as Adult-Maximum Security	480
Mississippi		
East Mississippi Correctional Facility	Adult Male Mental Health - All Security Levels	1000
Marshall County Correctional Facility	Adult Male Medium Security	1000
New Mexico		
Guadalupe County Correctional Facility	Adult Male Medium Security	600
Lea County Correctional Facility	Adult Male All Security Levels	1200
Oklahoma		
Lawton Correctional Facility	Adult Male Medium Security	1918
Texas		
Bridgeport Correctional Center	Adult Male Pre-Release Center - Minimum Security	520
Cleveland Correctional Center	Adult Male Medium Security	520
Coke County Juvenile Justice Center	Juvenile Male Medium/Maximum Security	200
John R. Lindsey State Jail	Adult Male Medium/Minimum Security	1031
Kyle Correctional Center (New Vision)	Adult Male Therapeutic Community - Minimum Security	520
Lockhart Secure Work Program Facilities	Adult Male/Female Work Program Facilities - Minimum Security	1000
North Texas Intermediate Sanction Facility	Adult Male Short Term Offender - Minimum Security	400
Willacy State Jail	Adult Male Medium/Minimum Security	1000
Virginia		
Lawrenceville Correctional Center	Adult Male Medium Security	1536
Local Jurisdictions		
George W. Hill Correctional Facility (PA)	Male/Female/Juvenile All Security Levels	1812
Multiple Jurisdictions		
Broward Transition Center (FL)	Adult M/F Min. Security Work Release & Female Immigration	300
Central Texas Parole Violator Facility (TX)	Adult Male/Female - All Security Levels	643
Karnes Correctional Center (TX)	Adult Male All Security Levels	579
Reeves County Detention Complex (TX)	Adult Male Detention Complex - All Security Levels	3064
Val Verde Correctional Facility (TX)	Adult Male/Female - All Security Levels	784
North American Services Total		**30177**

International Services

Location	Facility Type	Capacity
Australia		
Arthur Gorrie Correctional Centre	Local Prison and Remand Centre - All Security Levels	710
Fulham Correctional Centre	Adult Male Medium/Minimum Security	725
Junee Correctional Centre	Adult Male/Female Medium/Minimum Security	750
Melbourne Custody Centre	Court Escort and Custody Services - All Security Levels	80
New Zealand		
Auckland Central Remand Prison	Adult Male Remand - Maximum Security	383
South Africa		
Kutama Sinthumule Maximum Security Prison	Adult Male Maximum Security	3024
International Services Total		**5672**
Total North American and International Services		**35849**

Mental Health Services

Location	Facility Type	Capacity
Hospitals		
Atlantic Shores Healthcare, Inc.		
Atlantic Shores Hospital (FL)	Special Needs-Private Mental Health Hospital	72
South Florida State Hospital (FL)	Special Needs-State Mental Health Hospital	325
Mental Health Services Total		**397**
TOTAL BEDS UNDER MANAGEMENT		**36246**
Other Contracts		
Canada		
New Brunswick Youth Centre	Male/Female Youthful Offenders (Maintenance Only)	N/A
Australia		
Pacific Shores Healthcare	Health Services for the State of Victoria's Public Prisons	N/A

2003 Financial Review

The GEO Group, Inc.

MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the New York Stock Exchange under the symbol GGI. The following table shows the high and low prices for our common stock, as reported by the New York Stock Exchange, for each of the four quarters of fiscal years 2003 and 2002. The prices shown have been rounded to the nearest $1/100. The approximate number of shareholders of record as of February 18, 2004, was 154.

	2003		2002	
Quarter	High	Low	High	Low
First	$11.32	$ 8.48	$17.42	$13.86
Second	14.74	8.96	15.95	13.95
Third	19.92	13.71	14.90	10.46
Fourth	22.40	17.05	12.60	10.50

We did not pay any cash dividends on our common stock for fiscal years 2003 and 2002. We intend to retain our earnings to finance the growth and development of our business and do not anticipate paying cash dividends on our capital stock in the foreseeable future. Future dividends, if any, will depend, among other things, on our future earnings, our capital requirements, our financial condition and on such other factors as our board of directors may consider relevant. In addition, the indenture governing our Notes and the Senior Credit Facility also place material restrictions on our ability to pay dividends, which may further limit us from paying dividends.

On July 9, 2003 we purchased all 12 million shares of our common stock beneficially owned by Group 4 Falck, our former 57% majority shareholder, for $132.0 million in cash pursuant to the terms of the share purchase agreement.

We did not buy back any of our common stock during 2002.

Equity Compensation Plan Information

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 28, 2003, including our 1994 Stock Option Plan, our 1994 Second Stock Option Plan, our 1999 Stock Option Plan, and our Non-Employee Director Stock Option Plan. Our shareholders have approved all of these plans.

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,614,374	$14.19	182,674
Equity compensation plans not approved by security holders	—	—	—
Total	1,614,374	$14.19	182,674

Recent Sales of Unregistered Securities

To facilitate the completion of the share purchase from Group 4 Falck, on July 9, 2003, we issued $150.0 million aggregate principal amount ten-year 8 1/4% senior notes, referred to as the Notes, in a private offering to qualified institutional buyers under Rule 144A of the Securities Act.

Subsequent to the private offering of the Notes, we filed an S-4 registration statement to register under the Securities Act of 1933 exchange notes, referred to as the Exchange Notes having substantially identical terms as the Notes. The registration statement was declared effective by the SEC on November 10, 2003. We then completed an exchange offer pursuant to the registration statement, in which holders of the Notes exchanged the Notes for Exchange Notes which are generally freely tradable, subject to certain exceptions.

The GEO Group, Inc.

SELECTED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements.

Fiscal Year Ended:[1]	2003	
RESULTS OF OPERATIONS:		
Revenues	$ 617,490	100.0%
Operating income	31,756	5.1%
Net income	$ 45,268	7.3%
EARNINGS PER SHARE – BASIC:	$ 2.90	
EARNINGS PER SHARE – DILUTED:	$ 2.86	
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	15,618	
Diluted	15,829	
FINANCIAL CONDITION:		
Current assets	$ 185,646	
Current liabilities	113,349	
Total assets	507,290	
Long-term debt, including current portion (excluding non-recourse debt)	245,090	
Shareholders' equity	86,959	
OPERATIONAL DATA:		
Contracts/awards	44	
Facilities in operation	39	
Design capacity of contracts	36,243	
Compensated resident days[2]	11,247,270	

(1) Our fiscal year ends on the Sunday closest to the calendar year end.

(2) Compensated resident days are calculated as follows: (a) for per diem rate facilities – the number of beds occupied by residents on a daily basis during the fiscal year; and, (b) for fixed rate facilities – the design capacity of the facility multiplied by the number of days the facility was in operation during the fiscal year. Amounts exclude compensated resident days for United Kingdom and South African facilities.

(1) Does not include facilities for which we have been notified that the management contract has not been renewed

2002		2001		2000		1999	
$ 568,612	100.0%	$ 562,073	100.0%	$ 535,557	100.0%	$ 438,484	100.0%
27,876	4.9%	24,184	4.3%	18,912	3.5%	26,041	5.9%
$ 21,501	3.8%	$ 19,379	3.4%	$ 16,994	3.2%	$ 21,940	5.0%
$ 1.02		$ 0.92		$ 0.81		$ 1.01	
$ 1.01		$ 0.91		$ 0.80		$ 1.00	
21,148		21,028		21,110		21,652	
21,364		21,261		21,251		22,015	
$ 139,583		$ 140,132		$ 129,637		$ 134,893	
74,994		72,245		73,636		55,516	
402,658		242,023		223,571		204,425	
125,000		—		10,000		15,000	
152,642		130,361		127,164		118,684	
59		61		57		56	
59		59		51		50	
39,216		39,965		39,944		39,930	
10,850,003		11,068,912		10,572,093		9,636,099	

Quantitative and Qualitative Disclosures About Market Risk

Introduction

The following discussion and analysis provides information which our management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of numerous factors including, but not limited to, those described under Item 1 "Business – Risks Related to Our High Level of Indebtedness, Risks Related to Our Business and Industry and Forward-Looking Statements." The discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Overview

We are a leading provider of government-outsourced services specializing in the management of correctional, detention and mental health facilities. Our services primarily involve the outsourced management of correctional and detention facilities for federal agencies and state and local governments. We manage all aspects of a prison's operations, including security, food services, work programs, educational programs and health services. In addition to management services, we have the internal capability to design and develop new correctional facilities. We believe our expertise in operating correctional facilities combined with our capabilities to design and develop facilities strategically position us to win new contracts. Our service offerings also include the management of a state and a private mental health hospital.

Share Purchase

On April 30, 2003, we entered into a share purchase agreement with Group 4 Falck A/S, our former majority shareholder which we refer to as Group 4 Falck, to purchase all 12,000,000 shares of our common stock held by Group 4 Falck for $132.0 million in cash. Group 4 Falck obtained these shares when it acquired our former parent company, The Wackenhut Corporation, which we refer to as TWC, in 2002. We completed the share purchase on July 9, 2003.

Recent Financings

In connection with the share purchase, we completed two financing transactions on July 9, 2003. First, we amended our former senior credit facility. The amended $150.0 million senior credit facility, which we refer to as the Senior Credit Facility, consists of a $50.0 million, five-year revolving credit facility, with a $40.0 million sub limit for letters of credit, and a $100.0 million, six-year term loan. Second, we offered and sold $150.0 million aggregate principal amount of 8 1/4% senior notes due 2013, which we refer to as the Notes.

Sale of Our Joint Venture Interest in Premier Custodial Group Limited

On July 2, 2003, we sold our one-half interest in Premier Custodial Group Limited, our United Kingdom joint venture, which we refer to as PCG, to Serco Investments Limited, our former joint venture partner, which we refer to as Serco, for approximately $80.7 million, on a pretax basis. Under the terms of the indenture governing the Notes, we have an obligation to use the proceeds from the sale of our interest in PCG to reinvest in certain permitted businesses or assets, to repay indebtedness outstanding under the Senior Credit Facility or to make an offer to repurchase the Notes.

Loss of Contract with the Australia Department of Immigration, Multicultural and Indigenous Affairs

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs, which we refer to as DIMIA, entered into a contract in 2003 with a division of Group 4 Falck for the management and operation of Australia's immigration centers, services which we have provided since 1997 through our Australian subsidiary. We transitioned the management and operation of the DIMIA centers to the division of Group 4 Falck February 29, 2004. For the year ended December 28, 2003 DIMIA represented approximately 9.9% of our consolidated revenues. We do not have any lease obligations related to our contract with DIMIA. During 2003, we increased reserves approximately $3.6 million for liability insurance obligations related to the expiration of the DIMIA contract.

The GEO Group, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Name Change

On November 25, 2003, our corporate name was changed from "Wackenhut Corrections Corporation" to "The GEO Group, Inc." The name change was required under the terms of the share purchase agreement between us and Group 4 Falck referred to above. Under the terms of the share purchase agreement, GEO is required to cease using the name, trademark and service mark "Wackenhut" by July 9, 2004. In addition to achieving compliance with the terms of the share purchase agreement, we believe that the change in our name to "The GEO Group, Inc." will help reinforce the fact that we are no longer affiliated with TWC or Group 4 Falck or their related entities. Following the name change, our New York Stock Exchange ticker symbol was changed to "GGI" and our common stock now trades under that symbol.

Results of Re-bids on Management Contracts in Texas

As a result of a re-bidding process in Texas on several state management contracts which expire in January 2004, we were recently awarded management contracts by the Texas Department of Criminal Justice for the continued operation of two facilities which we currently operate – the Cleveland Correctional Center facility and the Lockhart Secure Work Program Facility. We were also awarded the management contract to operate a new facility, the Sanders Estes Correctional Center. However, our existing management contracts to operate the Willacy State Jail and the John R. Lindsey State Jail were not renewed. Although the net impact of the Texas re-bid process will result in the overall loss of one management contract, we do not believe that this will have a material impact on our future financial performance. The contract awards became effective on January 16, 2004 and we began the operation of the Sanders Estes Correctional Center on that date.

Rights Agreement

On October 9, 2003, we entered into a rights agreement with EquiServe Trust Company, N.A., as rights agent. Under the terms of the rights agreement, each share of our common stock carries with it one preferred share purchase right. If the rights become exercisable pursuant to the rights agreement, each right entitles the registered holder to purchase from us one one-thousandth of a share of Series A Junior Participating Preferred Stock at a fixed price, subject to adjustment. Until a right is exercised, the holder of the right has no right to vote or receive dividends or any other rights as a shareholder as a result of holding the right. The rights trade automatically with shares of our common stock, and may only be exercised in connection with certain attempts to take over our company. The rights are designed to protect the interests of our company and our shareholders against coercive takeover tactics and encourage potential acquirors to negotiate with our board of directors before attempting a takeover. The rights may, but are not intended to, deter takeover proposals that may be in the interests of our shareholders.

Shelf Registration Statement

On January 28, 2004, our universal shelf registration statement on Form S-3 was declared effective by the Securities and Exchange Commission, which we refer to as the SEC. The universal shelf registration statement provides for the offer and sale by us, from time to time, on a delayed basis, of up to $200.0 million aggregate amount of our common stock, preferred stock, debt securities, warrants, and/or depositary shares. These securities, which may be offered in one or more offerings and in any combination, will in each case be offered pursuant to a separate prospectus supplement issued at the time of the particular offering that will describe the specific types, amounts, prices and terms of the offered securities. Unless otherwise described in the applicable prospectus supplement relating to the offered securities, we anticipate using the net proceeds of each offering for general corporate purposes, including debt repayment, capital expenditures, acquisitions, business expansion, investments in subsidiaries or affiliates, and/or working capital.

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that our management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve the more significant judgments and estimates used in the preparation of our consolidated financial statements. We have discussed the development, selection and application of our critical accounting policies with the audit committee of our board of directors, and our audit committee has reviewed our disclosure relating to our critical accounting policies in this "Management's Discussion and Analysis of Financial Condition and Results of Operations." Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our consolidated financial statements. The notes to our consolidated financial statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

Revenue Recognition

In accordance with Commission Staff Accounting Bulletin No. 101, as amended by Staff Accounting Bulletin No. 104, and related interpretations, facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because our management considers costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which we determine that such losses and changes are probable. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

We extend credit to the governmental agencies contracted with and other parties in the normal course of business as a result of billing and receiving payment for services thirty to sixty days in arrears. Further, we regularly review outstanding receivables, and provide estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves, we make judgments regarding our customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

Property and Equipment

As of December 28, 2003, we had approximately $201.5 million in long-lived property and equipment. Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful life. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing evaluations of the estimated useful lives of our property and equipment for depreciation purposes. The estimated useful life is determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repair items are expensed as incurred.

We review for impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Our management has reviewed our long-lived assets and determined that there are no events requiring impairment loss recognition. Events that would trigger an impairment assessment include deterioration of profits for a business segment that has long-lived assets, or when other changes occur which might impair recovery of long-lived assets.

The GEO Group, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Income Taxes

Deferred tax assets and liabilities are recognized as the difference between the book basis and tax basis of its net assets. At December 28, 2003, we had net deferred tax assets of approximately $16.8 million. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required.

Reserves for Insurance Losses

Claims for which we are insured arising from our U.S. operations that have an occurrence date of October 1, 2002, or earlier are handled by TWC and are fully insured up to an aggregate limit of between $25.0 million and $50.0 million, depending on the nature of the claim. With respect to claims for which we are insured arising from our U.S. operations that have an occurrence date of October 2, 2002, or later, our coverage varies depending on the nature of the claim. For claims relating to general liability and automobile liability, we have a deductible of $1.0 million per claim, primary coverage of $5.0 million per claim for general liability and $3.0 million per claim for automobile liability (up to a limit of $20.0 million for all claims in the aggregate), and excess/umbrella coverage of up to $50.0 million per claim and for all claims in the aggregate. For claims relating to medical malpractice at our correctional facilities, we have a deductible of $1.0 million per claim and primary coverage of $5.0 million per claim (up to a limit of $5.0 million for all claims in the aggregate). For claims relating to medical malpractice at our mental health facilities, we have a deductible of $2.0 million per claim and primary coverage of up to $5.0 million per claim and for all claims in the aggregate. The current professional liability policy for our mental health facilities does not include tail coverage for prior periods. For claims relating to workers' compensation, we maintain statutory coverage as determined by state and/or local law and, as a result, our coverage varies among the various jurisdictions in which we operate. We carry no insurance for claims relating to employment matters. We also carry various types of insurance with respect to our operations in South Africa, Australia and New Zealand. Because our insurance policies have high deductible amounts, losses are recorded as reported and a provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. We use judgments in assessing loss estimates that are based on actual claim amounts and loss development experience considering historical and industry experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements.

Fiscal 2003 compared with 2002

Revenues increased by 8.6% to $617.5 million in 2003 from $568.6 million in 2002. The strengthening of the Australian dollar by approximately 20 percent during 2003 resulted in approximately a $22.9 million increase in revenues. Revenues also increased approximately $14.8 million as a result of the opening of the Lawrenceville Correctional Facility at the end of the first quarter 2003. The remainder of the increase was due to contractual adjustments for inflation, slightly higher occupancy rates and improved terms negotiated into a number of contracts. These increases were partially reduced by approximately $6.3 million in 2003 compared to 2002 due to the closure of the Bayamon Correctional Facility and Southbay – SVP.

The number of compensated resident days in domestic facilities increased to 9.8 million in 2003 from 9.2 million in 2002. The average facility occupancy in domestic facilities was 100% of capacity in 2003 compared to 98.5% in 2002. Compensated resident days in Australian facilities during 2003 decreased to 1.5 million from 1.7 million for the comparable periods in 2002 primarily due to lower population levels at the immigration and detention centers.

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs, which we refer to as DIMIA, recently entered into a contract with a division of Group 4 Falck for the management and operation of Australia's immigration centers, services which we have provided since 1997 through our Australian subsidiary. We fully transitioned the management and operation of the DIMIA centers to the division of Group 4 Falck effective February 29, 2004. For the year ended December 28, 2003, DIMIA represented approximately 9.9% of our consolidated revenues.

Operating expenses increased by 7.2% to $532.4 million in 2003 compared to $496.5 million in 2002. As a percentage of revenues, operating expenses decreased to 86.2% in 2003 from 87.3% in 2002. The increase in operating expense reflects an additional provision for operating loss of approximately $5 million during 2003 related to our inactive facility in Jena, Louisiana. During third quarter 2003, parties that we previously believed might sublease the Jena facility prior to early 2004 either indicated that they did not have an immediate need for the facility or did not enter into a binding commitment for a sublease of the facility. As a result, we have determined that it is unlikely that we will sublease the facility or find an alternative correctional use for the facility prior to the expiration of the provision for anticipated loss through early 2004 and we have incurred an additional provision for operating loss. This additional operating charge both covers our anticipated losses under the lease for the facility until a sublease is in place and provides an estimated discount to sublease the facility to prospective sublessees. We are continuing our efforts to find a sublease or alternative correctional use for the facility. If we are unable to sublease or find an alternative correctional use for the facility prior to January 2006, an additional operating charge will be required. As of December 28, 2003, the remaining obligation on the Jena lease through the contractual term of 2009, exclusive of the reserve for losses through early 2006, was approximately $7.0 million.

The increase in operating expenses in 2003 also reflects increased costs of approximately $3.5 million related to the transitioning of the DIMIA contract to the division of Group 4 Falck, primarily related to liability insurance expenses. We may incur additional costs related to the transition in the future. We do not have any lease obligations related to our contract with DIMIA.

Increased operating expenses in 2003 were also attributable to the opening of the Lawrenceville Correctional Facility and the impact of the stronger Australian dollar offset by lower workers' compensation and general liability insurance expense and lower lease expense as a result of purchasing previously leased properties.

Depreciation and amortization increased by 15.6% to $14.0 million in 2003 from $12.1 million in 2002. As a percentage of revenues, depreciation and amortization increased to 2.3% in 2003 from 2.1% in 2002. This increase is primarily attributable to the purchase of previously leased facilities for approximately $155.0 million in December 2002.

General and administrative expenses increased by 22.5% to $39.4 million in 2003 from $32.1 million in 2002. As a percentage of revenues, general and administrative expenses increased to 6.4% in 2003 from 5.7% in 2002. The increase primarily relates to increased deferred compensation costs for senior executive compensation agreements as well as payments under employment agreements with certain key executives triggered by the change in control from the sale of TWC in May 2002 as well as increased professional fees, directors' and officers' insurance and travel costs.

Operating income increased by 13.9% to $31.8 million in 2003 from $27.9 million in 2002. As a percentage of revenues, operating income increased to 5.1% in 2003 from 4.9% in 2002 due to the factors discussed above.

Interest income increased 38.7% to $6.7 million in 2003 from $4.8 million in 2002. This increase is primarily due to higher average invested cash balances.

Interest expense was $17.9 million in 2003 compared to $3.7 million in 2002. This increase is attributable to the debt incurred to finance the purchase of previously leased facilities for approximately $155.0 million in December 2002. In addition, during 2003, we entered into the Senior Credit Facility and issued the Notes.

We incurred a charge of approximately $2.0 million for the write-off of deferred financing fees related to the amendment of our previous credit agreement in July 2003.

On July 2, 2003, we sold our one-half interest in Premier Custodial Group Limited, our United Kingdom joint venture, which we refer to as PCG, to Serco Investments Limited, our former joint venture partner, which we refer to as Serco, for approximately $80.7 million. We recognized a pre-tax gain of approximately $61.0 million from the sale of PCG.

Provision for income taxes increased to $37.3 million in 2003 as compared to $12.7 million in 2002 primarily due to the tax effect on the gain on sale of PCG in July 2003.

Equity in earnings of affiliates, net of income tax provision, decreased to $3.0 million in 2003 as compared to $5.2 million in 2002 due to the sale of PCG.

Net income increased to $45.3 million in 2003 from $21.5 million in 2002 as a result of the factors described above.

The GEO Group, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fiscal 2002 compared with 2001

Revenues increased $6.5 million or 1.2% to $568.6 million in 2002 from $562.1 million in 2001. The increase in revenues is the result of new facility openings and increases in per diem rates offset by lower construction revenues and the closure of a number of facilities. Specifically, revenues increased approximately $27.4 million in 2002 compared to 2001 due to increased compensated resident days at a number of our domestic facilities, including, but not limited to, the facilities opened in 2001, Val Verde Correctional Facility, Del Rio, Texas and the Rivers Correctional Institution, Winton, North Carolina and an overall increase in per diem rates. Revenues decreased by approximately $9.4 million in 2002 compared to 2001 due to the decline in construction revenues. Offsetting the increase, revenues were reduced by approximately $11.5 million in 2002 compared to 2001 due to the expiration of our contracts with the Arkansas Board of Correction and Community Punishment in 2001 and the expiration of the Bayamon Correctional Facility contract in June 2002.

The number of compensated resident days in domestic facilities remained constant at 9.2 million for 2002 and 2001. Average facility occupancy in domestic facilities increased to 98.5% in 2002 from 97% in 2001. Compensated resident days in Australian facilities decreased to 1.7 million in 2002 from 1.9 million in 2001 primarily due to lower population levels at the immigration and detention centers. Average facility occupancy in Australian facilities decreased to 91.4% in 2002 from 94.3% in 2001, based on a reduction of detainees at our immigration and detention facilities.

Operating expenses decreased by 1.4% to $496.5 million in 2002 compared to $503.5 million in 2001. As a percentage of revenues, operating expenses decreased to 87.3% in 2002 from 89.6% in 2001. This decrease primarily reflects the absence of $3.5 million in start-up costs related to the opening of the Val Verde, Texas and Winton, North Carolina facilities in 2001, as well as approximately $9.2 million due to the completion of construction activities in 2001, and approximately $11.3 million due to the expiration of the contracts with the Arkansas Board of Correction and Community Punishment and Bayamon Correctional Facility and a decrease in expenses related to our operating lease facility, which was refinanced on December 12, 2002. Also during 2002, our allowance for doubtful accounts decreased approximately $0.9 million as a result of charge-offs related to uncollectible accounts for receivables at our psychiatric hospital. During 2002, we recognized approximately $1.4 million in expense for uninsured legal claims, approximately $0.6 million for reserves related to certain contractual obligations and approximately $0.4 million related to performance penalties under certain of our operating contracts. During 2001, we recognized approximately $0.3 million for uninsured legal claims, approximately $0.1 million for reserves related to certain contractual obligations and approximately $0.3 million related to performance penalties under certain of our operating contracts which had been provided for in 2000. Additionally, there are a number of secondary factors contributing to operating expenses in 2002 as compared to 2001 which include the following: lease expense for payments made to CPV of $21.3 million offset by $1.8 million in amortization of the deferred revenue from the sale of properties to CPV.

During 2000, our management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana was terminated by the mutual agreement of the parties. Despite the discontinuation of the management contract, we remain responsible for payments on our underlying lease of the inactive facility. We incurred operating charges of $1.1 million and $3.0 million during fiscal years 2002 and 2001, respectively, related to our lease of the inactive facility that represented the expected costs to be incurred under the lease until a sublease or alternative correctional use could be initiated. During 2003, parties that we believed might sublease the facility prior to early 2004 either indicated that they did not have an immediate need for the facility or did not enter into a binding commitment for a sublease of the facility. As a result, our management determined that it was unlikely that we would sublease the facility or find an alternative correctional use for the facility prior to the expiration of the provision for anticipated loss though early 2004 and we incurred an additional provision for operating charge of $5.0 million during 2003. This additional operating charge both covers our anticipated losses under the lease for the facility until a sublease is in place and provides us with an estimated discount to sublease the facility to prospective sublessees. We are continuing our efforts to find a sublease or alternative correctional use for the facility. If we are unable to sublease or find an alternative correctional use for the facility prior to January 2006, an additional operating charge will be required. As of December 28, 2003, the remaining obligation on the Jena lease through the contractual term of 2009, exclusive of the reserve for losses through early 2006, is approximately $7.0 million.

Depreciation and amortization increased by 21.9% to $12.1 million in 2002 from $9.9 million in 2001 due to the newly operational facilities in 2002, the addition of the four facilities as a result of the refinancing of our operating lease facility and incremental depreciation due to assets acquired in our development of the internal support structure previously provided by TWC. As a percentage of revenues, depreciation and amortization increased to 2.1% in 2002 from 1.8% in 2001.

General and administrative expenses increased 31.6% to $32.1 million in 2002 from $24.4 million in 2001. As a percentage of revenues, general and administrative expenses increased to 5.7% in 2002 from 4.3% in 2001. The increase was primarily driven by $1.9 million of payments under employment agreements with certain key executives triggered by the change in control from the sale of TWC as well as $0.6 million of expense due to an acceleration of the retirement age under the senior executive deferred compensation plans, also a result of the sale of TWC. Other factors impacting the increase were increased legal and professional fees of approximately $2.0 million, higher insurance costs of approximately $1.2 million and higher travel costs of approximately $0.4 million.

Related party transactions occurred in the past in the normal course of business between us and TWC. Such transactions included the purchase of goods and services and corporate costs for information technology support, office space and interest expense. Total related party transaction costs with TWC, excluding casualty insurance, were approximately $3.1 million and $3.2 million in 2002 and 2001, respectively. Casualty insurance related to workers' compensation, general liability and automobile insurance coverage is provided through an independent insurer. Prior to October 2, 2002, the first $1.0 million of coverage was reinsured by an insurance subsidiary of TWC. We paid TWC a fee for the transfer of the deductible exposure. We paid casualty insurance premiums related to this program of approximately $18.0 million for coverage through the end of the third quarter for the fiscal year ended December 29, 2002, as compared to approximately $22.0 million for coverage during the full fiscal year ended December 30, 2001. Effective October 2, 2002, we established a new insurance program with a $1.0 million deductible per occurrence for covered claims with an independent insurer. Prior to the establishment of the new high deductible policy, we had not recognized any expense related to self-insurance. We recognized approximately $3.0 million of self-insurance expense for estimated losses related to the high deductible policy during the fourth quarter of the fiscal year ended December 29, 2002 related to this new program.

Since January 1, 2003, the only services TWC has provided for us have been information technology support services, which they ceased providing on December 31, 2003. We also formerly leased office space from TWC under a non-cancelable operating lease that expires February 11, 2011. On April 14, 2003, we relocated our corporate headquarters to Boca Raton, Florida under a ten-year lease for new office space. Upon the completion of the share purchase with Group 4 Falck in July 2003, the lease with TWC for our former corporate headquarters terminated and we have no further obligations under that lease. In addition, upon the closing of the share purchase, an agreement between us and Group 4 Falck, whereby Group 4 Falck agreed to reimburse us for up to 10% of the fair market value of our interest in PCG under certain circumstances, was terminated.

Operating income increased by 15.3% to $27.9 million in 2002 from $24.2 million in 2001. As a percentage of revenues, operating income increased to 4.9% in 2002 from 4.3% in 2001 due to the factors impacting contribution from operations described above.

Interest income increased 12.1% to $4.8 million in 2002 from $4.3 million in 2001. This increase is primarily due to higher average invested cash balances.

Interest expense increased slightly to $3.7 million in 2002 from $3.6 million in 2001 reflecting higher effective interest rates as a result of the refinancing completed on December 12, 2002.

Income before income taxes and equity in earnings of affiliates, increased to $28.9 million in 2002 from $24.9 million in 2001 due to the factors described previously.

Provision for income taxes increased to $12.7 million in 2002 from $9.7 million in 2001 due to the increase in income before income taxes and a higher effective tax rate. The higher effective tax rate reflects an increase in the tax provision to provide for higher additional taxes due to the disallowance of certain expenses resulting from the sale of TWC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Equity in earnings of affiliates, net of income tax provision, increased 23.7% to $5.2 million in 2002 from $4.2 million in 2001. Fiscal year 2001 reflects start-up costs associated with the opening of the 800-bed Dovegate prison in the United Kingdom, in July 2001, and the opening of the 150-bed Dungavel House Immigration Detention Centre in the United Kingdom, in August 2001. Fiscal year 2002 reflects the full activation of these facilities offset by start-up costs and phase-in losses related to the 3,024-bed South African prison, which opened in February 2002. Additionally, performance issues at the Ashfield Facility negatively impacted fiscal 2002 results.

Net income increased 10.9% to $21.5 million in 2002 from $19.4 million in 2001 as a result of the factors described above.

Financial Condition

Liquidity and Capital Resources

Our primary source of liquidity is cash flow from operations and borrowings under the $50.0 million revolving portion of our Senior Credit Facility. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources. As of December 28, 2003, we had $25.5 million available for borrowing under the revolving portion of our Senior Credit Facility.

We incurred substantial indebtedness in connection with the share purchase. As of December 28, 2003, we had $248.8 million of consolidated long-term debt outstanding, excluding $43.9 million of non recourse debt. As of December 28, 2003, we also had outstanding eleven letters of guarantee totaling approximately $6.7 million under separate international credit facilities. Our significant debt service obligations could, under certain circumstances, have material consequences for you. See "Risk Factors – Risks Related to Our High Level of Indebtedness."

The Senior Credit Facility

The Senior Credit Facility consists of a $50.0 million, five-year revolving loan, referred to as the Revolving Credit Facility, and a $100.0 million, six-year term loan, referred to as the Term Loan Facility. The Revolving Credit Facility contains a $40.0 million sublimit for the issuance of standby letters of credit. On February 20, 2004, we amended the Senior Credit Facility to, among other things, reduce the interest rates applicable to borrowings under the Senior Credit Facility, give us the flexibility to make certain information technology related capital expenditures and provide us with additional time to reinvest the proceeds from the sale of PCG. At December 28, 2003, we had borrowings of $98.8 million outstanding under the Term Loan Facility, no amounts outstanding under the Revolving Credit Facility, and $24.5 million outstanding in letters of credit under the Revolving Credit Facility. As of March 5, 2004, we had borrowings of $97.5 million outstanding under the Term Loan Facility and $7.5 million outstanding under the Revolving Credit Facility.

All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of our existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of our present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, including but not limited to (i) a first-priority pledge of all of the outstanding capital stock owned by us and each guarantor, and (ii) perfected first-priority security interests in all of our present and future tangible and intangible assets and the present and future tangible and intangible assets of each guarantor.

Indebtedness under the Revolving Credit Facility portion of the Senior Credit Facility bears interest at our option at the base rate plus a spread varying from 0.75% to 1.50% (depending upon a leverage-based pricing grid set forth in the Senior Credit Facility, or at the London inter-bank offered rate ("LIBOR") plus a spread, varying from 2.00% to 2.75% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). Borrowings under the Revolving Credit Facility currently bear interest at LIBOR plus a spread of 2.5%. The Term Loan Facility bears interest at our option at the base rate plus a spread of 1.25%, or at LIBOR plus a spread of 2.5%. Borrowings under the Term Loan Facility currently bear interest at LIBOR plus 2.5%. If an event of default occurs under the Senior Credit Facility (i) all LIBOR rate loans bear interest at the rate which is 2.0% in excess of the rate then applicable to LIBOR rate loans until the end of the applicable interest period and thereafter at a rate which is 2.0% in excess of the rate then applicable to base rate loans, and (ii) all base rate loans bear interest at a rate which is 2.0% in excess of the rate then applicable to base rate loans.

The Senior Credit Facility contains financial covenants which require us to maintain the following ratios, as computed at the end of each fiscal quarter for the immediately preceding four-quarter period: a total leverage ratio equal to or less than 3.50 to 1.00 through March 27, 2004, which reduces thereafter in 0.25 increments to 2.50 to 1.00 on July 2, 2006 and thereafter; a senior secured leverage ratio equal to or less than 1.75 to 1.00 through September 25, 2004, which reduces thereafter to 1.50 to 1.00; and a fixed charge coverage ratio equal to or greater than 1.10 to 1.00. In addition, the Senior Credit Facility prohibits us from making capital expenditures greater than $10.0 million in the aggregate during any fiscal year, provided that to the extent that our capital expenditures during any fiscal year are less than the $10.0 million limit, such amount will be added to the maximum amount of capital expenditures that we can make in the following year and further provided that certain information technology related upgrades made prior to the end of 2005 will not count against the annual limit on capital expenditures.

The Senior Credit Facility also requires us to maintain a minimum net worth, as computed at the end of each fiscal quarter for the immediately preceding four-quarter period, equal to $140.0 million, plus the amount of the net gain from the sale of our interest in PCG, which is approximately $32.7 million, minus the $132.0 million we used to complete the share purchase from Group 4 Falck, plus 50% of our consolidated net income earned during each full fiscal quarter ending after the date of the Senior Credit Facility, plus 50% of the aggregate increases in our consolidated shareholders' equity that are attributable to the issuance and sale of equity interests by us or any of our restricted subsidiaries (excluding intercompany issuances).

The Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict our ability to, among other things (i) create, incur or assume any indebtedness, (ii) incur liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) sell our assets, (vi) make certain restricted payments, including declaring any cash dividends or redeem or repurchase capital stock, except as otherwise permitted, (vii) issue, sell or otherwise dispose of our capital stock, (viii) transact with affiliates, (ix) make changes to our accounting treatment, (x) amend or modify the terms of any subordinated indebtedness (including the Notes), (xi) enter into debt agreements that contain negative pledges on our assets or covenants more restrictive than contained in the Senior Credit Facility, (xii) alter the business we conduct, and (xiii) materially impair our lenders' security interests in the collateral for our loans. The covenants in the Senior Credit Facility can substantially restrict our business operations. See "Risk Factors – Risks Related to Our High Level of Indebtedness – The covenants in the indenture governing the Notes and our Senior Credit Facility impose significant operating and financial restrictions which may adversely affect our ability to operate our business."

Events of default under the Senior Credit Facility include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our material breach of any representations or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a threshold to be determined, (vii) material environmental claims which are asserted against us, and (viii) a change of control.

Senior 8 1/4% Notes

To facilitate the completion of the share purchase from Group 4 Falck, we issued $150.0 million aggregate principal amount ten-year 8 1/4% senior notes, referred to as the Notes, in a private offering to qualified institutional buyers under Rule 144A of the Securities Act.

The Notes are general, unsecured, senior obligations. Interest is payable semi-annually on January 15 and July 15 at 8.25%, beginning on January 15, 2004. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between us and the Bank of New York, as trustee, referred to as the Indenture. Under the terms of the Indenture, at any time on or prior to July 15, 2006, we may redeem up to 35% of the Notes with the proceeds from equity offerings at 108.25% of the principal amount to be redeemed plus the payment of accrued and unpaid interest, and any applicable liquidated damages. Additionally, after July 15, 2008, we may redeem, at our option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the

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redemption occurs. The Indenture contains covenants that limit our ability to incur additional indebtedness, pay dividends or distributions on our common stock, or repurchase our common stock, or prepay subordinated indebtedness. The Indenture also limits our ability to issue preferred stock, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets. We were in compliance with all of the covenants of the Notes as of December 28, 2003. Under the terms of the indenture governing the Notes, we have an obligation to use the proceeds from the sale of its interest in the UK joint venture in the amount of $52 million by June 28, 2004 to reinvest in certain permitted businesses or assets, to repay indebtedness outstanding under the amended senior credit facility or to make an offer to repurchase the Notes.

The covenants in the Indenture can substantially restrict our business operations. See "Risk Factors – Risks Related to Our High Level of Indebtedness – The covenants in the indenture governing the Notes and our Senior Credit Facility impose significant operating and financial restrictions which may adversely affect our ability to operate our business."

Subsequent to the private offering of the Notes, we filed an S-4 registration statement to register under the Securities Act of 1933 exchange notes, referred to as the Exchange Notes having substantially identical terms as the Notes. The registration statement was declared effective by the SEC on November 10, 2003. We then completed an exchange offer pursuant to the registration statement, in which holders of the Notes exchanged the Notes for Exchange Notes which are generally freely tradable, subject to certain exceptions.

Other Financing Activities

Effective September 18, 2003, we entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. We have designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. Changes in the fair value of the interest rate swaps will be recorded in earnings along with related designated changes in the value of the Notes. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the six-month London Interbank Offered Rate plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount.

In connection with the financing and management of one Australian facility, our wholly owned Australian subsidiary financed the facility's development and subsequent expansion in 2003 with long-term debt obligations, which are non-recourse to us. We have consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $43.9 million and $31.4 million as of December 28, 2003 and December 29, 2002, respectively. As a condition of the loan, we are required to maintain a restricted cash balance of approximately $3.7 million. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria.

Cash provided by operating activities in 2003, 2002 and 2001 was $21.3 million, $25.4 million, and $29.5 million, respectively. 2003 cash provided by operating activities was positively impacted by an increase in accounts payable and accrued expenses and other liabilities. The increase in accounts payable and other accrued expenses is attributable to the increase in value of our Australian subsidiary's accounts payable and accrued expenses due to an increase in foreign exchange rates and an increase in reserves for self insurance. The increase in other liabilities reflects an increase in the liability for the fair market value of our Australian subsidiary's interest rate swap and an increase in certain pension obligations.

Cash provided by operating activities in 2003 was negatively impacted by an increase in accounts receivable. The increase in accounts receivable is attributable to the increase in value of our Australian subsidiary's accounts receivable due to an increase in foreign exchange rates, the addition of the Lawrenceville Facility and slightly higher monthly billings reflecting a general increase in facility occupancy levels.

The $4.1 million decrease in cash provided by operating activities from 2001 to 2002 primarily reflects increases in accounts receivable and other current assets and decreases in accounts payable and accrued expenses. These were partially offset by higher net income, depreciation expense and an increase in other liabilities. The increase in other liabilities was primarily driven by costs related to employment agreements with certain key executives triggered by the change in control of TWC as well as an acceleration of the retirement age under senior executive deferred compensation plans, also a result of the sale of TWC.

Cash provided by investing activities was $18.3 million dollars in 2003. Cash used in investing activities in 2002 and 2001 was $159.3 million and $3.9 million, respectively. Cash provided by investing activities in 2003 reflects the gross proceeds from the sale of PCG offset by restricted cash and capital expenditures in the normal course of business. Our Senior Credit Facility allows for the reinvestment of the net proceeds of the sale of PCG into certain permitted investments, as defined in the Senior Credit Facility, by June 28, 2004 or requires that we use the proceeds to pay down the term loan. In the event we are unable to extend the requirement to reinvest the proceeds in a permitted investment by June 28, 2004, we will be required to pay approximately $52 million dollars on the Term Loan. Additionally during 2003, our wholly owned Australian subsidiary financed the expansion of a facility with non recourse debt. As a condition of the loan we are required to maintain a restricted cash balance of approximately $3.7 million. The $155.4 million increase in cash used in investing activities from 2001 to 2002 is primarily due to the purchase by us in December 2002 of four correctional properties in operation under our prior operating lease facility. We acquired these four properties from the operating lease facility for an aggregate purchase price of approximately $155.0 million.

Cash used in financing activities was $17.2 million in 2003 and $11.2 million in 2001. Cash provided by financing activities in 2002 was $126.1 million. Cash used in financing activities in 2003 reflects the sale of the Notes, and purchase of 12 million shares of our common stock from Group 4 Falck for $132.0 million. The $137.3 million increase in cash provided by financing activities from 2001 to 2002 reflects borrowings under our former senior credit facility.

Current cash requirements consist of amounts needed for working capital, capital expenditures and supply purchases and investments in joint ventures. Some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. The initial expenditures subsequently are fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. However, we cannot assure you that any of these expenditures would, if made, be recovered. Based on current estimates of our capital needs, we anticipate that our capital expenditures will not exceed $12.0 million during the next 12 months. We plan to fund these capital expenditures from cash from operations.

Our management believes that cash on hand, cash flows from operations and available lines of credit will be adequate to support currently planned business expansion and various obligations incurred in the operation of our business, both on a near and long-term basis.

Our access to capital and ability to compete for future capital-intensive projects will be dependent upon, among other things, our ability to meet certain financial covenants in our Senior Credit Facility. A substantial decline in our financial performance as a result of an increase in operational expenses relative to revenue could limit our access to capital and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations.

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Contractual Obligations and Off Balance Sheet Arrangements

The following is a table of certain of our contractual obligations, as of December 28, 2003, which requires us to make payments over the periods presented.

	Payment due by period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	$248,750	$ 5,625	$15,000	$29,375	$198,750
Operating Lease Obligations	163,917	31,403	62,515	50,939	19,060
Non-Recourse Debt	43,861	1,393	3,309	4,105	35,054
Other Long-Term Liabilities	12,717	1,275	—	—	11,442
Total	$469,245	$39,696	$80,824	$84,419	$264,306

At December 28, 2003 we also had outstanding eleven letters of guarantee totaling approximately $6.7 million under separate international credit facilities. We do not have any off balance sheet arrangements or guarantees which would subject us to additional liabilities.

Commitments and Contingencies

Our contract with the California Department of Corrections for the management of the 224-bed McFarland Community Corrections Center expired on December 31, 2003. During the year ended December 28, 2003, the contract for the McFarland facility represented less than 1% of our consolidated revenues. Even though we are no longer operating the McFarland facility, we will continue to be responsible for payments on our underlying lease of the facility with CPV through April 2008, when the lease is scheduled to expire. We are actively pursuing various alternatives for the facility, including finding an alternative correctional use for the facility or subleasing the facility to agencies of the federal and/or state governments or another private operator. If we are unable to find an appropriate correctional use for the facility or sublease the facility, we may be required to record an operating charge related to a portion of the future lease costs with CPV in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The remaining lease obligation is approximately $3.3 million through April 28, 2008.

During 2000, our management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana was discontinued by the mutual agreement of the parties. Despite the discontinuation of the management contract, we remain responsible for payments on our underlying lease of the inactive facility. We incurred an operating charge of $1.1 million during the year ended December 29, 2002, related to our lease of the inactive facility that represented the expected costs to be incurred under the lease until a sublease or alternative use could be initiated in early 2004. During 2003 parties that we previously believed might sublease the facility prior to early 2004 either indicated that they did not have an immediate need for the facility or did not enter into a binding commitment for a sublease of the facility. As a result our management determined that it was unlikely that we would sublease the facility or find an alternative correctional use for the facility prior to the expiration of the provision for anticipated losses through early 2004 and we incurred an additional operating charge of $5.0 million during 2003. This additional operating charge both covers our anticipated losses under the lease for the facility until a sublease is in place and provides us with an estimated discount to sublease the facility to prospective sublessees. We are continuing our efforts to find a sublease or alternative correctional use for the facility. If we are unable to sublease or find an alternative correctional use for the facility prior to January 2006, an additional operating charge will be required. As of December 28, 2003, the remaining obligation on the Jena lease through the contractual term of 2009, exclusive of the reserve for losses through early 2006, is approximately $7.0 million.

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs, which we refer to as DIMIA, recently entered into a contract with a division of Group 4 Falck for the management and operation of Australia's immigration centers, services which we have provided since 1997 through our Australian subsidiary. We transitioned the management and operation of the DIMIA centers to the division of Group 4 Falck effective February 29, 2004. For the year ended December 28, 2003 DIMIA represented approximately 9.9% of our consolidated revenues. We do not have any lease obligations related to our contract with DIMIA. During 2003, we increased reserves approximately $3.6 million for liability insurance obligations related to the expiration of the DIMIA contract.

Inflation

We believe that inflation, in general, did not have a material effect on our results of operations during fiscal 2003, 2002 and 2001. While some of our contracts include provisions for inflationary indexing, inflation could have a substantial adverse effect on our results of operations in the future to the extent that wages and salaries, which represent our largest expense, increase at a faster rate than the per diem or fixed rates received by us for our management services. See "Risk Factors – Our profitability may be materially adversely affected by inflation."

Market Risk

We are exposed to market risks related to changes in interest rates with respect to our Senior Credit Facility. Monthly payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Senior Credit Facility of $98.8 million as of December 28, 2003, for every one percent increase in the interest rate applicable to the Senior Credit Facility, our total annual interest expense would increase by $1.1 million. Additionally, for every one percent increase in the interest rate applicable to the $50.0 million swap agreements on the Notes described above, our total annual interest expense will increase by $0.5 million.

We are also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar and the Australian dollar and the South African rand currency exchange rates. Based upon the Company's foreign currency exchange rate exposure at December 28, 2003, every 10 percent change in historical currency rates would have approximately a $3.0 million effect on our financial position and approximately a $1.0 million impact on our results of operations over the next fiscal year.

We have entered into certain interest rate swap arrangements fixing the interest rate on our Australian non-recourse debt to 9.7%. The difference between the floating rate and the swap rate on these instruments is recognized in interest expense within the respective entity. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point change in the current interest rate would not have a material impact on our financial statements.

Additionally, we invest our cash in a variety of short-term financial instruments. These instruments generally consist of highly liquid investments with original maturities at the date of purchase of three months or less. While these instruments are subject to interest rate risk, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial statements.

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FORWARD-LOOKING STATEMENTS – SAFE HARBOR

This report and the documents incorporated by reference herein contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking" statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are "forward-looking" statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" or "continue" or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or "cautionary statements," include, but are not limited to:

- our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;
- the instability of foreign exchange rates, exposing us to currency risks in Australia, New Zealand and South Africa, or other countries in which we may choose to conduct our business;
- an increase in labor rates beyond that which was budgeted;
- our ability to expand our correctional and mental health services;
- our ability to win management contracts for which we have submitted proposals and to retain existing management contracts;
- our ability to raise new project development capital given the often short-term nature of the customers' commitment to use newly developed facilities;
- our ability to find customers for our Jena, Louisiana Facility and our McFarland, California Facility and/or to sub-lease or coordinate the sale of the facilities with their owner, Correctional Properties Trust, which we refer to as CPV;
- our ability to accurately project the size and growth of the domestic and international privatized corrections industry;
- our ability to estimate the government's level of utilization of privatization;
- our ability to obtain future financing at competitive rates;
- our exposure to general liability and workers' compensation insurance costs;
- our ability to maintain occupancy rates at our facilities;
- our ability to manage health related insurance costs and medical malpractice liability claims;
- the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us;
- our ability to effectively internalize functions and services previously provided by The Wackenhut Corporation, our former parent company; and
- those factors disclosed under "Risk Factors" and elsewhere in this report, including, without limitation, in conjunction with the forward-looking statements included in this report.

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements included in this report.

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CONSOLIDATED STATEMENTS OF INCOME

Fiscal Years Ended December 28, 2003, December 29, 2002, and December 30, 2001

(U.S. dollars in thousands, except per share data)	2003	2002	2001
REVENUES	$617,490	$568,612	$562,073
OPERATING EXPENSES (including amounts related to The Wackenhut Corporation (TWC) of $0, $17,973, and $21,952)	532,376	496,497	503,547
DEPRECIATION AND AMORTIZATION	13,979	12,093	9,919
GENERAL AND ADMINISTRATIVE EXPENSES (including amounts related to TWC of $2,251, $3,105, and $3,117)	39,379	32,146	24,423
OPERATING INCOME	31,756	27,876	24,184
INTEREST INCOME	6,651	4,794	4,278
INTEREST EXPENSE	(17,896)	(3,737)	(3,597)
WRITE-OFF OF DEFERRED FINANCING FEES FROM EXTINGUISHMENT OF DEBT	(1,989)	—	—
GAIN ON SALE OF UK JOINT VENTURE	61,034	—	—
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	79,556	28,933	24,865
PROVISION FOR INCOME TAXES	37,274	12,652	9,706
INCOME BEFORE EQUITY IN EARNINGS OF AFFILIATES	42,282	16,281	15,159
EQUITY IN EARNINGS OF AFFILIATES, (net of income tax provision of $2,162, $3,000, and $2,698)	2,986	5,220	4,220
NET INCOME	$ 45,268	$ 21,501	$ 19,379
EARNINGS PER SHARE			
Basic:	$ 2.90	$ 1.02	$ 0.92
Diluted:	$ 2.86	$ 1.01	$ 0.91
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic:	15,618	21,148	21,028
Diluted:	15,829	21,364	21,261

The accompanying notes to consolidated financial statements are an integral part of these statements.

The GEO Group, Inc.

CONSOLIDATED BALANCE SHEETS

December 28, 2003 and December 29,2002

(U.S. dollars in thousands)	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 62,817	$ 35,240
Accounts receivable, less allowance for doubtful accounts of $1,227 and $1,644	99,715	84,737
Deferred income tax asset	11,839	7,161
Other	11,275	12,445
Total current assets	185,646	139,583
RESTRICTED CASH	55,794	—
PROPERTY AND EQUIPMENT, NET	201,515	206,466
INVESTMENTS IN AND ADVANCES TO AFFILIATES	6,667	19,776
DEFERRED INCOME TAX ASSET	4,980	119
DIRECT FINANCE LEASE RECEIVABLE	42,379	30,866
OTHER NON-CURRENT ASSETS	10,309	5,848
	$507,290	$402,658
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 20,347	$ 10,138
Accrued payroll and related taxes	15,104	17,489
Accrued expenses	69,070	43,046
Current portion of deferred revenue	1,811	2,551
Current portion of long-term debt and non-recourse debt	7,107	1,770
Total current liabilities	113,439	74,994
DEFERRED REVENUE	6,197	7,348
OTHER NON-CURRENT LIABILITIES	18,851	13,058
LONG-TERM DEBT	239,465	123,750
NON-RECOURSE DEBT	42,379	30,866
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 30,000,000 shares authorized, 9,332,552 and 21,245,620 shares issued and outstanding, respectively	93	212
Additional paid-in capital	64,605	63,500
Retained earnings	156,605	111,337
Accumulated other comprehensive loss	(2,464)	(22,407)
Treasury stock (12,000,000 shares as of December 28, 2003)	(131,880)	—
Total shareholders' equity	86,959	152,642
	$507,290	$402,658

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended December 28, 2003, December 29, 2002, and December 30, 2001

	2003	2002	2001
(U.S. dollars in thousands)			
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	$ 45,268	$ 21,501	$ 19,379
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	13,979	12,093	9,919
Amortization of original issue discount and debt issuance costs	607	—	—
Deferred tax benefit	(664)	(711)	(670)
Provision for doubtful accounts	1,025	2,368	3,636
Equity in earnings of affiliates, net of tax	(2,986)	(5,220)	(4,220)
Tax benefit related to employee stock options	330	1,081	315
Gain on sale of UK joint venture	(61,034)	—	—
Write-off of deferred financing fees from extinguishment of debt	1,989	—	—
Changes in assets and liabilities			
(Increase) decrease in assets			
Accounts receivable	(11,066)	(6,851)	(3,219)
Other current assets	2,372	(9,048)	1,383
Other assets	(884)	3,586	(414)
Increase (decrease) in liabilities			
Accounts payable and accrued expenses	31,803	(3,485)	1,525
Accrued payroll and related taxes	(3,348)	3,936	756
Deferred revenue	(1,891)	(2,673)	(3,192)
Other liabilities	5,793	8,777	4,281
Net cash provided by operating activities	21,294	25,354	29,479
CASH FLOW FROM INVESTING ACTIVITIES:			
Investments in and advances to affiliates	193	(171)	(130)
Repayments of investments in and advances to affiliates	—	1,617	4,559
Proceeds from the sale of UK joint venture	80,678	—	—
Increase in restricted cash	(55,794)	—	—
Capital expenditures	(6,821)	(160,698)	(8,326)
Net cash provided by (used in) investing activities	18,256	(159,252)	(3,897)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt and non-recourse debt	272,130	127,981	—
Debt issuance costs including original issue discount	(11,857)	(3,111)	—
Payments on long-term debt	(146,250)	—	(10,000)
Proceeds from the exercise of stock options	776	1,264	397
Purchase of common stock	(132,000)	—	(1,547)
Net cash (used in) provided by financing activities	(17,201)	126,134	(11,150)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	5,228	(3,095)	(2,154)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,577	(10,859)	12,278
CASH AND CASH EQUIVALENTS, beginning of period	35,240	46,099	33,821
CASH AND CASH EQUIVALENTS, end of period	$ 62,817	$ 35,240	$ 46,099
SUPPLEMENTAL DISCLOSURES:			
Cash paid during the year for:			
Income taxes	$ 34,346	$ 5,589	$ 5,339
Interest	$ 10,235	$ 525	$ 479

The accompanying notes to consolidated financial statements are an integral part of these statements.

The GEO Group, Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Fiscal Years Ended December 28, 2003,
December 29, 2002, and December 30, 2001

	Common Stock					Treasury Stock		
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Number of Shares	Amount	Total Shareholders' Equity
BALANCE, DECEMBER 31, 2000	21,013	$210	$61,992	$ 70,457	$ (5,495)	—	$ —	$ 127,164
Proceeds from stock options exercised	86	1	396	—	—	—	—	397
Tax benefit related to employee stock options	—	—	315	—	—	—	—	315
Common stock repurchased and retired	(122)	(1)	(1,546)	—	—	—	—	(1,547)
Comprehensive income:								
Net income	—	—	—	19,379	—	—	—	
Change in foreign currency translation, net of income tax benefit of $1,777	—	—	—	—	(2,780)	—	—	
Cumulative effect of change in accounting principle related to affiliate's derivative instruments, net of income tax benefit of $8,062	—	—	—	—	(12,093)	—	—	
Unrealized loss on derivative instruments, net of income tax benefit of $303	—	—	—	—	(474)	—	—	
Total comprehensive income	—	—	—	—	—	—	—	4,032
BALANCE, DECEMBER 30, 2001	20,977	210	61,157	89,836	(20,842)	—	—	130,361
Proceeds from stock options exercised	269	2	1,262	—	—	—	—	1,264
Tax benefit related to employee stock options	—	—	1,081	—	—	—	—	1,081
Comprehensive income:								
Net income	—	—	—	21,501	—	—	—	
Change in foreign currency translation, net of income tax expense of $1,426	—	—	—	—	2,230	—	—	
Minimum pension liability adjustment, net of income tax benefit of $302	—	—	—	—	(505)	—	—	
Unrealized loss on derivative instruments, net of income tax benefit of $1,688	—	—	—	—	(3,290)	—	—	
Total comprehensive income	—	—	—	—	—	—	—	19,936
BALANCE, DECEMBER 29, 2002	21,246	212	63,500	111,337	(22,407)	—	—	152,642
Proceeds from stock options exercised	87	1	775	—	—	—	—	776
Purchase of common stock	—	(120)	—	—	—	(12,000)	(131,880)	(132,000)
Tax benefit related to employee stock options	—	—	330	—	—	—	—	330
Comprehensive income:								
Net income	—	—	—	45,268	—	—	—	
Change in foreign currency translation, net of income tax expense of $5,127	—	—	—	—	8,020	—	—	
Minimum pension liability adjustment, net of income tax benefit of $190	—	—	—	—	(263)	—	—	
Unrealized loss on derivative instruments, net of income tax benefit of $476	—	—	—	—	(1,112)	—	—	
Reclassification adjustment for losses on UK interest rate swaps included in net income related to the sale of the UK joint venture	—	—	—	—	13,298	—	—	
Total comprehensive income	—	—	—	—	—	—	—	65,211
BALANCE, DECEMBER 28, 2003	9,333	$ 93	$64,605	$156,605	$ (2,464)	(12,000)	$(131,880)	$ 86,959

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fiscal Years Ended December 28, 2003, December 29, 2002, and December 30, 2001

NOTE 1. General

The GEO Group, Inc., a Florida corporation, formerly known as Wackenhut Corrections Corporation and subsidiaries ("the Company") is a leading developer and manager of privatized correctional, detention and public sector mental health services facilities located in the United States, Australia, South Africa, and New Zealand. Until July 9, 2003, the Company was a majority owned subsidiary of The Wackenhut Corporation, ("TWC"). TWC previously owned 12 million shares of the Company's common stock.

On May 8, 2002, TWC consummated a merger with a wholly owned subsidiary of Group 4 Falck A/S ("Group 4 Falck") a Danish multinational security and correctional services company. As a result of the merger, Group 4 Falck acquired TWC and became the indirect beneficial owner of 12 million shares of the Company.

On July 2, 2003, the Company sold its 50% interest in its United Kingdom joint venture, Premier Custodial Group Limited, for approximately $80.7 million and recognized a pre-tax gain of approximately $61.0 million.

On July 9, 2003, the Company purchased all 12 million shares of its common stock, par value $0.01, beneficially owned by Group 4 Falck, for $132 million in cash pursuant to the terms of a share purchase agreement.

NOTE 2. Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year ends on the Sunday closest to the calendar year end. Fiscal years 2003, 2002 and 2001 each included 52 weeks.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 50 percent owned affiliates are accounted for under the equity method. All significant intercompany transactions and balances between the Company and its subsidiaries have been eliminated in consolidation. Certain reclassifications of the prior year's financial statements have been made to conform to the current year's presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's significant estimates include allowance for doubtful accounts, construction cost estimates, employee deferred compensation accruals, reserves for insurance and legal, the reserve related to the Jena Facility and certain reserves required under its operating contracts. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial statements taken as a whole, the actual amounts of such estimates, when known, will vary from these estimates.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items. The carrying value of the Company's long-term debt related to its Senior Credit Facility (See Note 4) and non-recourse debt approximates fair value based on the variable interest rates on the debt. For the Company's 8 1/4% Senior Unsecured Notes, the carrying value and fair value based on quoted market rates was $150.0 million and $160.1, respectively, at December 28, 2003.

The GEO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents

The Company classifies as cash equivalents all interest-bearing deposits or investments with original maturities of three months or less.

Accounts Receivable

The Company extends credit to the governmental agencies contracted with and other parties in the normal course of business as a result of billing and receiving payment for services thirty to sixty days in arrears. Further, the Company regularly reviews outstanding receivables, and provides estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves the Company makes judgments regarding its customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

Inventories

Food and supplies inventories are carried at the lower of cost or market, on a first-in first-out basis, and are included in "other current assets" in the accompanying consolidated balance sheets. Uniform inventories are carried at amortized cost and are amortized over a period of eighteen months. The current portion of unamortized uniforms is included in "other current assets." The long-term portion is included in "other assets" in the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. No interest cost was capitalized in 2003 or 2002.

Impairment of Long-lived Assets

The Company reviews for impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed the Company's long-lived assets and determined that there are no events requiring impairment loss recognition. Events that would trigger an impairment assessment include deterioration of profits for a business segment that has long-lived assets, or when other changes occur which might impair recovery of long-lived assets.

Goodwill

Effective December 31, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, the Company's goodwill is no longer amortized, but is subject to an annual impairment test. In accordance with SFAS No. 142, the Company ceased amortizing goodwill as of the beginning of 2002. The Company's goodwill at December 28, 2003 was associated with its Australian subsidiary in the amount of $0.4 million. Additionally, the Company's 50%-owned joint venture in the UK that was sold in July 2003 (see note 10) had goodwill of approximately $1.1 million at December 29, 2002. SFAS No. 142 requires that transitional impairment tests be performed at its adoption, and provides that resulting impairment losses for goodwill be reported as the effect of a change in accounting principle. There was no impairment of goodwill as a result of adopting SFAS No. 142 or the annual impairment test completed during the fourth quarter of 2002 and 2003.

The following table provides a reconciliation of reported net income for the year ended December 30, 2001 to net income adjusted as if SFAS No. 142 had been applied as of the beginning of 2001:

Year Ended December 30, 2001	
(in thousands, except per share data)	
Net income as reported	$ 19,379
Goodwill amortization, net of taxes	569
Equity method goodwill amortization, net of taxes	746
Adjusted net income	$ 20,694
BASIC EARNINGS PER SHARE:	
Net income as reported	$ 0.92
Goodwill amortization, net of taxes	0.03
Equity method goodwill amortization, net of taxes	0.04
Adjusted net income	$ 0.98
DILUTED EARNINGS PER SHARE:	
Net income as reported	$ 0.91
Goodwill amortization, net of taxes	0.03
Equity method goodwill amortization, net of taxes	0.04
Adjusted net income	$ 0.97

Goodwill represents the cost of acquired enterprises in excess of the fair value of the net tangible and identifiable intangible assets acquired. Prior to the adoption of SFAS No. 142 the Company amortized goodwill on a straight-line basis over periods of 5 to 10 years. Accumulated amortization totaled approximately $2.6 million at December 30, 2001.

Deferred Revenue

Deferred revenue primarily represents the unamortized net gain on the development of properties and on the sale and leaseback of properties by the Company to Correctional Properties Trust (“CPV”), a Maryland real estate investment trust. The Company leases these properties back from CPV under operating leases. Deferred revenue is being amortized over the lives of the leases and is recognized in income as a reduction of rental expenses.

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin No. 101, as amended by Staff Accounting Bulletin No. 104 and related interpretations, facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. The Company performs ongoing credit evaluations of its customers’ financial condition and generally does not require collateral. The Company maintains reserves for potential credit losses, and such losses traditionally have been within its expectations.

Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because the Company considers costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which management determine that such losses and changes are probable. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

The GEO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Operating Expenses

Operating expenses consist primarily of compensation and other personnel related costs, facility lease and operational costs, inmate related expenses, and medical expenses and are recognized as incurred.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Valuation allowances are recorded related to deferred tax assets based on the "not more likely than not" criteria of FSAS No. 109.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. In the computation of diluted earnings per share, the weighted-average number of common shares outstanding is adjusted for the dilutive effect of shares issuable upon exercise of stock options calculated using the treasury stock method.

Direct Finance Leases

The Company accounts for the portion of its contracts with certain governmental agencies that represent capitalized lease payments on buildings and equipment as investments in direct finance leases. Accordingly, the minimum lease payments to be received over the term of the leases less unearned income are capitalized as the Company's investments in the leases. Unearned income is recognized as income over the term of the leases using the interest method.

Reserves for Insurance Losses

Casualty insurance related to workers' compensation, general liability and automobile insurance coverage is provided through an independent insurer. Prior to October 2, 2002, the first $1 million of coverage was reinsured by an insurance subsidiary of TWC. Effective October 2, 2002, the Company established a new insurance program with a $1 million deductible per occurrence with an independent insurer. The insurance program consists of primary and excess insurance coverage. The primary general liability coverage has a $5 million limit per occurrence with a $20 million general aggregate limit and a $1 million deductible. The primary automobile coverage has a $3 million limit per occurrence with a $20 million general aggregate limit and with a $1 million deductible and excess/umbrella coverage of up to $50.0 million per claim and for all claims in the aggregate. For claims relating to medical malpractice at the Company's correctional facilities the Company has a deductible of $1.0 million per claim and for all claims in the aggregate. For claims relating to medical malpractice at the Company's mental health facilities, the Company has a deductible of $2.0 million per claim and primary coverage of up to $5.0 million per claim and for all claims in the aggregate. For claims relating to worker's compensation limits the Company maintains statutory coverage as determined by state and/or local law and, as a result the Company's coverage varies among the various jurisdictions in which it operates. The Company is self-insured for employment claims. The current professional liability policy for our mental health facilities does not include tail coverage for prior periods.

Because the insurance policies have high deductible amounts, losses are recorded as reported and provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. The Company expensed costs related to its insurance program of $14.9 million, $22.8 million and $22.0 million for the fiscal years ended December 28, 2003, December 29, 2002 and December 30, 2001, respectively. Reserves for insurance losses totaled $13.6 million and $4.1 million as of December 28, 2003 and December 29, 2002, respectively and are included in accrued expenses in the consolidated financial statements.

The Company is self-insured for employment claims and medical malpractice and recognized approximately $1.3 million, $1.4 million and $0.3 million of self-insurance expense related to the employment claims and medical malpractice claims for each of the fiscal years ended December 28, 2003, December 29, 2002 and December 30, 2001, respectively.

Claims for which our joint venture in South Africa is insured arising from its operations, are covered by policies with varying amounts of coverage depending on the nature of the claim. Primary insurance in the amount of ZAR50 million (approximately $7.5 million at December 28, 2003) is provided for general liability claims. This insurance contains a ZAR5 million (approximately $0.8 million at December 28, 2003) deductible. Excess insurance is provided above the ZAR50 million primary policy with limits up to ZAR250 million (approximately $37.3 million at December 28, 2003). Medical malpractice claims are insured up to ZAR14.7 million (approximately $2.2 million at December 28, 2003) with a ZAR50,000 deductible (approximately $7,500 at December 28, 2003).

Claims for which we are insured arising from operations in Australia and New Zealand are covered by policies with varying amounts of coverage depending on the nature of the claim. For public liability claims, we maintain primary insurance of AUD$5 million (approximately $3.7 million at December 28, 2003) with an AUD$250,000 deductible (approximately $0.2 million at December 28, 2003). Medical malpractice claims are insured up to AUD$10 million (approximately $7.4 million at December 28, 2003) with an AUD$1 million deductible (approximately $0.7 million at December 28, 2003).

Debt Issuance Costs

Debt issuance costs totaling $6.9 million and $2.8 million at December 28, 2003, and December 29, 2002, respectively, are included in other non current assets in the consolidated balance sheets and are amortized into interest expense on a straight-line basis, which is not materially different than the interest method, over the term of the related debt.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" requires companies to report all changes in equity in a financial statement for the period in which they are recognized, except those resulting from investment by owners and distributions to owners. The Company has disclosed Comprehensive Income, which encompasses net income, foreign currency translation adjustments, unrealized loss on derivative instruments and the minimum pension liability adjustment in the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade accounts receivable, direct finance lease receivable, long-term debt and financial instruments used in hedging activities. The Company's cash management and investment policies restrict investments to low-risk, highly liquid securities, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of December 28, 2003, and December 29, 2002, the Company had no significant concentrations of credit risk except as disclosed in Notes 6 and 10.

Foreign Currency Translation

The Company's foreign operations use their local currencies as their functional currencies. Assets and liabilities of the operations are translated at the exchange rates in effect on the balance sheet date and shareholders' equity is translated at historical rates. Income statement items are translated at the average exchange rates for the year. The impact of currency fluctuation is included in shareholders' equity as a component of accumulated other comprehensive loss and totaled approximately $2.0 million at December 28, 2003 and approximately $(6.0) million as of December 29, 2002.

Interest Rate Swaps

In accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations and amendments, the Company records derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. For derivatives that are designed as and qualify as effective cash flow hedges, the portion of gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Total accumulated other comprehensive loss related to these cash flow hedges was $3.7 million

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and $15.9 million as of December 28, 2003 and December 29, 2002, respectively. For derivative instruments that are designated as and qualify as effective fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk is recognized in current earnings as interest income (expense) during the period of the change in fair values.

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes attributing all derivatives that are designated as cash flow hedges to floating rate liabilities and attributing all derivatives that are designated as fair value hedges to fixed rate liabilities. The Company also assesses whether each derivative is highly effective in offsetting changes in the cash flows of the hedged item. Fluctuations in the value of the derivative instruments are generally offset by changes in the hedged item; however, if it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively for the affected derivative.

Accounting for Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," defines a fair value method of accounting for issuance of stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are not required to adopt the fair value method of accounting for employee stock-based transactions. Companies are permitted to account for such transactions under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees", but are required to disclose in a note to the financial statements pro forma net income and per share amounts as if the Company had applied the methods prescribed by SFAS No. 123.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of SFAS No. 123". SFAS No. 148 amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Currently, the Company accounts for stock option plans under APB Opinion No. 25, under which no compensation has been recognized. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. Management of the Company does not intend to change its policy with regard to stock-based compensation and there was no impact on its financial position, results of operations or cash flows upon adoption. Except for non-employee directors, the Company has not granted any options to non-employees. See Note 14 for more information regarding the Company's stock option plans.

A summary of the status of the Company's four stock option plans is presented below.

	2003		2002		2001	
Fiscal Year	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at beginning of year	1,410,306	$14.26	1,417,102	$12.40	1,315,202	$12.70
Granted	305,000	12.67	330,000	15.41	248,500	9.40
Exercised	86,932	8.93	268,396	4.72	86,200	4.60
Forfeited/Canceled	24,000	17.36	68,400	18.67	60,400	17.75
Options outstanding at end of year	1,614,374	14.19	1,410,306	14.26	1,417,102	12.40
Options exercisable at year end	1,443,032	$14.39	1,410,306	$14.26	1,079,202	$12.61

The following table summarizes information about the stock options outstanding at December 28, 2003:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable	Wtd. Avg. Exercise Price
\$ 3.75 - \$ 3.75	51,074	.4	\$ 3.75	51,074	\$ 3.75
\$ 7.88 - \$ 9.30	447,500	6.6	8.86	447,500	8.86
\$ 9.51 - \$13.75	147,200	6.6	10.46	92,220	11.03
\$14.00 - \$14.00	210,000	9.3	14.00	93,638	14.00
\$14.69 - \$14.69	25,000	5.7	14.69	25,000	14.69
\$15.40 - \$15.40	304,000	8.1	15.40	304,000	15.40
\$15.90 - \$18.63	169,000	5.3	18.42	169,000	18.42
\$20.25 - \$26.88	260,600	3.5	23.46	260,600	23.46
	1,614,374	6.4	\$14.19	1,443,032	\$14.39

The Company had 182,674 options available to be granted at December 28, 2003 under the aforementioned stock plans.

If the Company were to account for its stock option plans in accordance with SFAS No. 123 and compensation cost had been determined based on the fair value at date of grant, the Company's net income and earnings per share would have been reduced to the pro forma amounts as follows:

Pro Forma Disclosures	2003	2002	2001
(In thousands, except per share data)			
Net income	\$45,268	\$21,501	\$19,379
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	\$ (935)	\$ (1,060)	\$ (978)
Pro forma net income	\$44,333	\$20,441	\$18,401
Basic earnings per share			
As reported	\$ 2.90	\$ 1.02	\$ 0.92
Pro forma	\$ 2.84	\$ 0.97	\$ 0.88
Diluted earnings per share			
As reported	\$ 2.86	\$ 1.01	\$ 0.91
Pro forma	\$ 2.80	\$ 0.96	\$ 0.87
Risk free interest rates	1.73%-2.92%	2.37%-3.47%	4.61%-5.04%
Expected lives	3-7 years	4-8 years	4-8 years
Expected volatility	49%	49%	52%
Expected dividend	—	—	—

Recent Accounting Pronouncements

In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or

The GEO Group, Inc.

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incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The adoption of SFAS No. 143 did not have a material impact on the Company's financial position, results of operations or cash flows in the year of adoption.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, requires gains and losses on extinguishment of debt to be classified as part of continuing operations rather than treated as extraordinary, as previously required in accordance with SFAS No. 4. SFAS No. 145 also modifies accounting for subleases where the original lessee remains the secondary obligor and requires certain modifications to capital leases to be treated as a sale-leaseback transaction. The adoption of SFAS No. 145 did not have material impact on the Company's financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies the guidance previously provided under Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Among other things, SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when there is commitment to a restructuring plan as set forth under the nullified guidance. The adoption of SFAS No. 146 in 2003 did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain preexisting contracts. The Company adopted SFAS No. 149 and there was no material impact on its financial position, results of operations or cash flows from adoption.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with this standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 is effective for all financial instruments entered into on or modified after May 31, 2003. For existing financial instruments, SFAS No. 150 is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 and there was no material impact on its financial position, results of operations or cash flows from adoption.

In November 2002, the FASB's Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," which is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Under EITF Issue No. 00-21, revenue arrangements with multiple deliverables are required to be divided into separate units of accounting under certain circumstances. The Company adopted EITF Issue No. 00-21 during 2003, and such adoption did not have a material effect on its consolidated financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition" (SAB No. 104), which codifies, revises and rescinds certain sections of SAB No. 101, "Revenue Recognition," in order to make this interpretive guidance consistent with current authoritative guidance. The changes noted in SAB No. 104 did not have a material impact upon the Company's financial position, cash flows or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which addressed consolidation by a business of variable interest entities in which it is the primary beneficiary. In December 2003 the FASB issued FIN No. 46 (revised) which replaced FIN No. 46. FIN No. 46 (revised) is effective immediately for certain disclosure requirements and variable interest entities referred to as special-purpose entities for periods ending after December 15, 2003 and for all other types of entities for financial statements for periods ending after March 15, 2004. The application of FIN 46 (revised) in 2003 did not have a material effect on its financial position, results of operations and cash flows. Additionally the Company does not expect the application of remaining requirements in first quarter 2004 to have material impact on the Company's financial position, results of operations and cash flows.

NOTE 3. Property and Equipment

Property and equipment consist of the following at fiscal year end:

(In thousands)	Useful Life (Years)	2003	2002
Land	—	$ 3,707	$ 3,258
Buildings and improvements	2 to 40	209,266	203,639
Equipment	3 to 7	22,959	21,607
Furniture and fixtures	3 to 7	3,523	4,584
		$239,455	$233,088
Less accumulated depreciation and amortization		(37,940)	(26,622)
		$201,515	$206,466

Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. No interest was capitalized in 2003 and 2002.

In December 2002, the Company acquired four correctional properties that were formerly included in the Company's operating lease facility for an aggregate purchase price of approximately $155 million.

NOTE 4. Long-Term Debt

Prior to December 12, 2002, the Company was party to a $30 million multi-currency revolving credit facility and a $154.3 million operating lease facility established to acquire and develop new correctional institutions used in its business. At December 12, 2002, no amounts were outstanding under the revolving credit facility and $154.3 million was outstanding under the operating lease facility. The term of the operating lease facility was set to expire December 18, 2002 upon which the Company had the ability to purchase the properties in the facility for their original acquisition cost.

On December 12, 2002, the Company entered into a new $175 million senior secured credit facility, consisting of a $50 million, 5-year revolving loan and a $125 million, 6-year term loan. Borrowings under the term loan facility and corporate cash were used to purchase four correctional facilities in operation under the Company's $154.3 million operating lease facility. The purchase price totaled approximately $155 million, which included related fees and expenses. Simultaneous with the closing of the senior secured credit facility, the Company terminated its $154.3 million operating lease facility and $30 million multi-currency revolving credit facility.

To facilitate the completion of the purchase of the 12 million shares from Group 4 Falck, the Company amended its senior secured credit facility (the "Senior Credit Facility") and issued $150 million, aggregate principal amount, ten-year, 8 1/4% Senior Unsecured Notes (the "Notes") in a private offering to qualified institutional buyers under Rule 144A of the Securities Act of 1933.

The Senior Credit Facility

The Senior Credit Facility consists of a $50 million, 5-year revolving loan (the "Revolving Credit Facility"), and a $100 million, 6-year term loan (the "Term Loan Facility"). The Revolving Credit Facility contains a $40 million limit for the issuance of standby letters of credit. On February 20, 2004, the Company amended the Senior Credit Facility to, among other things, reduce the interest rates applicable to borrowings under the Senior Credit Facility, give it the flexibility to make certain information technology related capital expenditures and provide it with additional time to reinvest the proceeds from the sale of PCG. At December 28, 2003, the Company had borrowings of $98.8 million outstanding under the Term Loan Facility, no amounts outstanding under the Revolving Credit Facility, and $24.5 million outstanding in letters of credit under the Revolving Credit Facility. As of March 5, 2004, the Company had borrowings of $97.5 million outstanding under the Term Loan Facility and $7.5 million outstanding under the Revolving Credit Facility.

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All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of the Company's existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of the Company's present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, including but not limited to (i) a first-priority pledge of all of the outstanding capital stock owned by the Company and each guarantor, and (ii) perfected first-priority security interests in all of the Company's present and future tangible and intangible assets and the present and future tangible and intangible assets of each guarantor.

Indebtedness under the Revolving Credit Facility portion of the Senior Credit Facility bears interest at the Company's option at the base rate plus a spread varying from 0.75% to 1.50% (depending upon a leverage-based pricing grid set forth in the Senior Credit Facility), or at the London inter-bank offered rate ("LIBOR") plus a spread varying from 2.00% to 2.75% (depending upon a leverage-based pricing grid set forth in the Senior Credit Facility). Borrowings under the Revolving Credit Facility are currently bearing interest at LIBOR plus a spread of 2.5%. The Term Loan Facility bears interest at the Company's option at the base rate plus a spread of 1.25%, or at LIBOR plus a spread of 2.5%. Borrowings under the Term Loan Facility are currently bearing interest at LIBOR plus a spread of 2.5%. If an event of default occurs under the Senior Credit Facility (i) all LIBOR rate loans bear interest at the rate which is 2.0% in excess of the rate then applicable to LIBOR rate loans until the end of the applicable interest period and thereafter at a rate which is 2.0% in excess of the rate then applicable to base rate loans, and (ii) all base rate loans bear interest at a rate which is 2.0% in excess of the rate then applicable to base rate loans.

The Senior Credit Facility contains financial covenants which require the Company to maintain the following ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period: a total leverage ratio equal to or less than 3.50 to 1.00 through March 27, 2004, which reduces thereafter in 0.25 increments to 2.50 to 1.00 on July 2, 2006 and thereafter; a senior secured leverage ratio equal to or less than 1.75 to 1.00 through September 25, 2004, which reduces thereafter to 1.50 to 1.00; and a fixed charge coverage ratio equal to or greater than 1.10 to 1.00. In addition, the Senior Credit Facility prohibits the Company from making capital expenditures greater than $10.0 million in the aggregate during any fiscal year, provided that to the extent that the Company's capital expenditures during any fiscal year are less than the $10.0 million limit, such amount will be added to the maximum amount of capital expenditures that the Company can make in the following year and further provided that certain information technology related upgrades made prior to the end of 2005 will not count against the annual limit on capital expenditures.

The Senior Credit Facility also requires the Company to maintain a minimum net worth, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period, equal to $140.0 million, plus the amount of the net gain from the sale of the Company's interest in PCG, which is approximately $32.7 million, minus the $132.0 million the Company used to complete the share purchase from Group 4 Falck, plus 50% of the Company's consolidated net income earned during each full fiscal quarter ending after the date of the Senior Credit Facility, plus 50% of the aggregate increases in the Company's consolidated shareholders' equity that are attributable to the issuance and sale of equity interests by the Company or any of its restricted subsidiaries (excluding intercompany issuances).

The Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict the Company's ability to, among other things (i) create, incur or assume any indebtedness, (ii) incur liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) sell its assets, (vi) make certain restricted payments, including declaring any cash dividends or redeem or repurchase capital stock, except as otherwise permitted, (vii) issue, sell or otherwise dispose of its capital stock, (viii) transact with affiliates, (ix) make changes to its accounting treatment, (x) amend or modify the terms of any subordinated indebtedness (including the Notes), (xi) enter into debt agreements that contain negative pledges on its assets or covenants more restrictive than contained in the Senior Credit Facility, (xii) alter the business it conducts, and (xiii) materially impair its lenders' security interests in the collateral for its loans.

Events of default under the Senior Credit Facility agreement include, but are not limited to, (i) the Company's failure to pay principal or interest when due, (ii) the Company's material breach of any representations or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a threshold to be determined, (vii) material environmental claims which are asserted against the Company, and (viii) a change of control.

Senior 8 1/4% Notes

The Notes are general, unsecured, senior obligations. Interest is payable semi-annually on January 15 and July 15 at 8.25%, beginning on January 15, 2004. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between the Company and the Bank of New York, as trustee (the "Indenture"). Under the terms of the Indenture, at any time on or prior to July 15, 2006, the Company may redeem up to 35% of the Notes with the proceeds from equity offerings at 108.25% of the principal amount to be redeemed plus the payment of accrued and unpaid interest, and any applicable liquidated damages. Additionally, after July 15, 2008, the Company may redeem, at the Company's option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the redemption occurs. The Indenture contains covenants that limit the Company's ability to incur additional indebtedness, pay dividends or distributions on its common stock, repurchase its common stock, or prepay subordinated indebtedness. The Indenture also limits the Company's ability to issue preferred stock, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets. The covenants in the Indenture can substantially restrict the Company's business operations. Under the terms of the indenture governing the Notes, the Company has an obligation to use the proceeds from the sale of its interest in the UK joint venture in the amount of approximately $52.0 million by June 28, 2004 to reinvest in certain permitted businesses or assets, to repay indebtedness outstanding under the amended senior credit facility or to make an offer to repurchase the Notes. This amount is reflected as restricted cash.

Subsequent to the private offering of the Notes, the Company filed an S-4 registration statement to register under the Securities Act of 1933 exchange notes(the "Exchange Notes"), having substantially identical terms as the Notes. The registration statement was declared effective by the SEC on November 10, 2003. The Company then completed an exchange offer pursuant to the registration statement, in which holders of the Notes exchanged the Notes for Exchange Notes which are generally freely tradable, subject to certain exceptions.

As of December 28, 2003, the Notes are reflected net of the original issuer's discount of approximately $4.4 million which is being amortized over the ten year term of the Notes using the effective interest method.

Debt repayment schedules under the Term Loan and the Notes are as follows:

Fiscal Year	Annual Repayment
(In thousands)	
2004	$ 5,625
2005	7,500
2006	7,500
2007	7,500
2008	21,875
Thereafter	199,453
	$249,453
Original issuer's discount	(4,363)
Current portion of Term Loan	(5,625)
Non current portion of Term Loan and Notes	$239,465

At December 28, 2003 the Company also had outstanding eleven letters of guarantee totaling approximately $6.7 million under separate international facilities.

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The Company's wholly-owned Australian subsidiary financed the development of a facility and subsequent expansion in 2003, with long-term debt obligations, which are non-recourse to the Company and total $43.9 million and $31.4 million at December 28, 2003 and December 29, 2002, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of approximately $3.7 million. This amount is included in restricted cash and the annual maturities of the future debt obligation is included in non recourse debt. See Note 5. The debt amortization schedule requires annual repayments of $1.5 million in 2004, $1.6 million in 2005, $1.8 million in 2006, $2.0 million in 2007, $2.3 million in 2008 and $34.6 million thereafter.

NOTE 5. Derivative Financial Instruments

Effective September 18, 2003, the Company entered into interest rate swap agreements in the aggregate notional amount of $50 million. The Company has designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. Changes in the fair value of the interest rate swaps will be recorded in earnings along with related designated changes in the value of the Notes. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50 million of the Notes into variable rate obligations. Under the agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50 million amount, while the Company makes a variable interest rate payment to the same counterparties equal to the six-month London Interbank Offered Rate plus a fixed margin of 3.45%, also calculated on the notional $50 million amount. As of December 28, 2003, the fair value of the swaps totaled approximately $0.7 million and is included in other non-current assets and as an adjustment to the carrying value of the Notes in the accompanying balance sheets. There was no material ineffectiveness of the Company's interest rate swaps for the fiscal year ended December 28, 2003.

In connection with the non-recourse debt, the Company's Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. The Company has determined the swap to be an effective cash flow hedge. Accordingly, the Company records the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap liability as of December 28, 2003 and December 29, 2002 was approximately $5.2 million and $6.0 million, respectively, and is recorded as a component of other liabilities in the accompanying consolidated financial statements. There was no material ineffectiveness of the Company's interest rate swaps for the fiscal years presented. The Company's former 50% owned joint venture operating in the United Kingdom was a party to several interest rate swaps to fix the interest rate on its variable rate credit facility. The Company previously determined the swaps to be effective cash flow hedges and upon the initial adoption of SFAS No. 133 on January 1, 2001, the Company recognized a $12.1 million reduction of shareholders' equity. In connection with the sale of the 50% owned joint venture in the UK, the Company reclassified the remaining balance of approximately $13.3 million from accumulated other comprehensive loss into earnings as a reduction of the gain on sale of the UK joint venture.

NOTE 6. Investment in Direct Finance Leases

The Company's investment in direct finance leases relates to the financing and management of one Australian facility. The Company's wholly-owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company. The Company's financial statements reflect the consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $43.9 million and $31.4 as of December 28, 2003 and December 29, 2002, respectively.

The future minimum rentals to be received are as follows (in thousands):

Fiscal Year	Annual Repayment
(In thousands)	
2004	$ 5,933
2005	5,673
2006	5,692
2007	5,723
2008	5,768
Thereafter	51,532
Total minimum obligation	80,321
Less unearned interest income	(36,460)
Less current portion of direct finance lease	(1,482)
Investment in direct finance lease	$42,379

NOTE 7. Transactions with Correctional Properties Trust ("CPV")

On April 28, 1998, CPV acquired eight correctional and detention facilities operated by the Company. Previously three members of the Company's board of directors also served on CPV's board of directors. Effective September 9, 2002, the companies no longer had common members serving on their respective boards of directors. CPV also was granted the fifteen-year right to acquire and lease back future correctional and detention facilities developed or acquired by the Company. During fiscal 1998, 1999 and 2000, CPV acquired three additional facilities for $109.4 million. The Company recognized no net proceeds from the sale. There have been no purchase and sale transactions between the Company and CPV since 2000.

Simultaneous with the purchases, the Company entered into ten-year operating leases of these facilities from CPV. As the lease agreements are subject to contractual lease increases, the Company records operating lease expense for these leases on a straight-line basis over the term of the leases. The deferred unamortized net gain related to sales of the facilities to CPV at December 28, 2003, which is included in "Deferred Revenue" in the accompanying consolidated balance sheets is $8.0, million with $1.8 million short-term and $6.2 million long-term. The gain is being amortized over the ten-year lease terms. The Company recorded net rental expense related to the CPV leases of $20.0 million, $19.6 million and $19.1 million in 2003, 2002 and 2001, respectively, excluding the Jena rental expense (See Note 8).

The future minimum lease commitments under the leases for these eleven facilities are as follows:

Fiscal Year	Annual Rental
(In thousands)	
2004	$ 24,179
2005	24,257
2006	24,339
2007	24,424
2008	16,371
Thereafter	2,397
	$115,967

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NOTE 8. Commitments and Contingencies

Facilities

The Company's contract with the California Department of Corrections for the management of the 224-bed McFarland Community Corrections Center expired in the first quarter of 2004 on December 31, 2003. During the year ended December 28, 2003, the contract for the McFarland facility represented less than 1% of the Company's consolidated revenues. Even though the Company no longer operates the McFarland facility, it will continue to be responsible for payments on the underlying lease of the facility with CPV through 2008, when the lease is scheduled to expire. The Company is actively pursuing various alternatives for the facility, including finding an alternative correctional use for the facility or subleasing the facility to agencies of the federal and/or state governments or another private operator. If the Company is unable to find an appropriate correctional use for the facility or sublease the facility, the Company may be required to record an operating charge related to a portion of the future lease costs with CPV in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The remaining lease obligation is approximately $3.3 million through April 28, 2008.

During 2000, the Company's management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana was discontinued by the mutual agreement of the parties. Despite the discontinuation of the management contract, the Company remains responsible for payments on the Company's underlying lease of the inactive facility. The Company incurred an operating charge of $1.1 million during the year ended December 29, 2002, related to its lease of the inactive facility that represented the expected costs to be incurred under the lease until a sublease or alternative use could be initiated in early 2004. During 2003 parties that the Company previously believed might sublease the facility prior to early 2004 either indicated that they did not have an immediate need for the facility or did not enter into a binding commitment for a sublease of the facility. As a result the Company's management determined that it was unlikely that it would sublease the facility or find an alternative correctional use for the facility prior to the expiration of the current provision for anticipated loss through early 2004 and the Company incurred an additional operating charge of $5.0 million during 2003. This additional operating charge both covers the Company's anticipated losses under the lease for the facility until a sublease is in place and provides an estimated discount to sublease the facility to prospective sublessees. The Company is continuing its efforts to find an alternative correctional use or sublease for the facility. If the Company is unable to sublease or find an alternative correctional use for the facility prior to January 2006, an additional operating charge will be required. The remaining obligation on the Jena lease through the contractual term of 2009, exclusive of the reserve for losses through early 2006, is approximately $7 million.

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs ("DIMIA") recently entered into a contract with a division of Group 4 Falck for the management and operation of Australia's immigration centers, services which the Company has provided since 1997 through its Australian subsidiary. The Company transitioned the management and operation of the DIMIA centers to the division of Group 4 Falck effective February 29, 2004. For the year ended December 28, 2003 DIMIA represented approximately 9.9% of the Company's consolidated revenues. The Company does not have any lease obligations related to its contract with DIMIA. During 2003, the Company increased reserves approximately $3.6 million for liability insurance obligations related to the expiration of the DIMIA contract.

Leases

The Company leases correctional facilities, office space, computers and vehicles under non-cancelable operating leases expiring between 2004 and 2012. The future minimum commitments under these leases exclusive of lease commitments related to CPV, are as follows:

Fiscal Year	Annual Rental
(In thousands)	
2004	$ 9,617
2005	7,564
2006	7,341
2007	7,344
2008	3,785
Thereafter	17,443
	$53,094

Rent expense was approximately $12.5 million, $15.7 million, and $15.8 million for fiscal 2003, 2002, and 2001 respectively. Rent expense for fiscal 2002 and 2001 included lease expense under the Company's operating lease facility that expired in December 2002 (See Note 3).

Litigation, Claims and Assessments

The Company is defending a wage and hour lawsuit filed in California state court by ten current and former employees. The employees are seeking certification of a class which would encompass all the Company's current and former California employees in certain selected posts. Discovery is underway and the court has yet to hear the plaintiffs' certification motion. While the plaintiffs in this case have not quantified their claim of damages and the outcome of the matters discussed above cannot be predicted with certainty, based on information known to date, the Company's management believes that the ultimate resolution of these matters, if settled unfavorably to the Company, could have a material adverse effect on the Company's financial position, operating results and cash flows. The Company is uninsured for any damages or costs the Company may incur as a result of this lawsuit, including the expenses of defending the lawsuit. The Company is vigorously defending its rights in this action.

The nature of the Company's business exposes it to various types of claims or litigation against the Company, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, contractual claims and claims for personal injury or other damages resulting from contact with the Company's facilities, programs, personnel or prisoners, including damages arising from a prisoner's escape or from a disturbance or riot at a facility. In addition, our management contracts generally require us to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. We maintain insurance coverage for these types of claims, except for claims relating to employment matters, for which we carry no insurance. Except for any potential losses related to the wage and hour matter described above, we do not expect the outcome of any pending legal proceedings to have material adverse effect on our financial condition, results of operations or cash flows.

NOTE 9. Common Share Purchase

On July 9, 2003 the Company purchased all 12 million shares of the Company's common stock, par value $0.01, beneficially owned by Group 4 Falck, the Company's former 57% majority shareholder, for $132 million in cash pursuant to the terms of

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a share purchase agreement, dated April 30, 2003, between the Company, Group 4 Falck, TWC, and Tuhnekcaw, Inc., an indirect wholly-owned subsidiary of Group 4 Falck (the "Transaction").

Under the terms of the share purchase agreement, Group 4 Falck, TWC and Tuhnekcaw, Inc. cannot, and cannot permit any of their subsidiaries to, acquire beneficial ownership of any of the Company's voting securities during a one-year standstill period beginning July 9, 2003, the closing date of the Transaction. Immediately following the completion of the Transaction, the Company had approximately 9.3 million shares of common stock issued and outstanding.

Upon closing of the Transaction, an agreement dated March 7, 2002 between the Company, Group 4 Falck and TWC, which governed certain aspects of the parties' relationship, was terminated and the two Group 4 Falck representatives serving on the Company's board of directors resigned. Also terminated upon the closing of the Transaction was a March 7, 2002 agreement between the Company and Group 4 Falck wherein Group 4 Falck agreed to reimburse the Company for up to 10% of the fair market value of the Company's interest in its UK joint venture in the event that litigation related to the sale of TWC to Group 4 Falck were to result in a court order requiring the Company to sell its interest in the joint venture to its partner, Serco Investments Limited ("Serco").

In addition, the services agreement dated October 28, 2002, between the Company and TWC, terminated effective December 31, 2003, and no further payments for periods thereafter will be due from the Company to Group 4 Falck. Pursuant to the services agreement, Group 4 Falck was scheduled to provide the Company with information systems related services through December 31, 2004. The Company has been handling those services internally since January 1, 2004.

A sublease for the Company's former headquarters between TWC, as sub lessor, and the Company, as sub lessee, also terminated ten days after closing of the Transaction. The Company relocated its corporate headquarters to Boca Raton, Florida on April 14, 2003.

In April 1994, the Company's Board of Directors authorized 10,000,000 shares of "blank check" preferred stock. The Board of Directors is authorized to determine the rights and privileges of any future issuance of preferred stock such as voting and dividend rights, liquidation privileges, redemption rights and conversion privileges.

NOTE 10. Business Segment and Geographic Information

The Company operates in one industry segment encompassing the development and management of privatized government institutions located in the United States, Australia, South Africa, and New Zealand.

The Company operates and tracks its results in geographic operating segments. Information about the Company's operations in different geographical regions is shown below. Revenues are attributed to geographical areas based on location of operations and long-lived assets consist of property, plant and equipment.

Fiscal Year	2003	2002	2001
(In thousands)			
REVENUES:			
U.S. operations	$482,754	$451,465	$454,053
Australian operations	134,736	117,147	108,020
Total revenues	$617,490	$568,612	$562,073
OPERATING INCOME:			
U.S. operations	$ 28,554	$ 26,066	$ 19,559
Australian operations	3,202	1,810	4,625
Total operating income	$ 31,756	$ 27,876	$ 24,184
LONG-LIVED ASSETS:			
U.S. operations	$194,467	$200,258	$ 47,639
Australian operations	7,048	6,208	6,119
Total long-lived assets	$201,515	$206,466	$ 53,758

The Company's international operations represent its wholly owned Australian subsidiaries. Through the Company's wholly owned subsidiary, GEO Group Australia Pty. Limited, the Company currently manages five correctional facilities, including a facility in New Zealand and two immigration detention centers.

Except for the major customers noted in the following table, no single customer provided more than 10% of the Company's consolidated revenues during fiscal 2003, 2002 and 2001:

Customer	2003	2002	2001
Various agencies of the U.S. Federal Government	19%	19%	18%
Various agencies of the State of Texas	17%	17%	16%
Various agencies of the State of Florida	12%	14%	14%
Department of Immigration, Multicultural and Indigenous Affairs (Australia)	10%	10%	11%

Concentration of credit risk related to accounts receivable is reflective of the related revenues.

Equity in earnings of affiliates represents the operations of the Company's 50% owned joint ventures in the United Kingdom (Premier Custodial Group Limited) and South Africa (South African Custodial Management Pty. Limited and South African Custodial Services Pty. Limited). These entities and their subsidiaries are accounted for under the equity method.

The Company sold its interest in Premier Custodial Group Limited on July 2, 2003 for approximately $80.7 million and recognized a gain of approximately $61 million. Total equity in the undistributed earnings for Premier Custodial Group Limited, before income taxes, for fiscal 2003, 2002, and 2001 was $3.0 million, $10.2 million and $7.6 million, respectively. As of December 28, 2003 and December 29, 2002, the Company had a note receivable from Premier Custodial Group Limited of approximately $5.1 and $4.8 million, respectively that bears interest at 13% and is due December 15, 2017.

The following table summarizes certain financial information pertaining to this joint venture as of December 29, 2002 and for the period from December 30, 2002 through the date of sale of the UK joint venture on July 2, 2003 and for the fiscal years ended December 29, 2002 and December 30, 2001 (in thousands):

	2003	2002	2001
(In thousands)			
STATEMENT OF OPERATIONS DATA			
Revenues	$ 104,080	$153,533	$121,163
Operating income (loss)	(2,981)	7,992	7,557
Net income	$ 3,486	$ 11,264	$ 10,271
BALANCE SHEET DATA			
Current assets		$ 85,461	
Non-current assets		302,760	
Current liabilities		55,695	
Non-current liabilities		331,447	
Shareholders' equity		$ 1,087	

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South African Custodial Management Pty. Limited and South African Custodial Services Pty. Limited commenced operations on their first prison in fiscal 2002. Total equity in undistributed earnings (loss) for South African Custodial Management Pty. Limited and South African Custodial Services Pty. Limited before income taxes, for fiscal 2003, 2002, and 2001 was $2.1 million, ($2.0) million, and ($0.7) million, respectively.

A summary of financial data for the Company's equity affiliates in South Africa is as follows:

Fiscal Year	2003	2002	2001
(In thousands)			
STATEMENT OF OPERATIONS DATA			
Revenues	$37,278	$15,928	$ —
Operating income (loss)	11,150	1,016	(1,749)
Net income (loss)	1,460	(2,481)	(1,441)
BALANCE SHEET DATA			
Current assets	12,904	6,426	
Non-current assets	61,557	47,125	
Current liabilities	4,461	1,808	
Non-current liabilities	69,744	52,170	
Shareholders' (deficit) equity	256	(427)	

NOTE 11. Income Taxes

The United States and foreign components of income before income taxes and equity income from affiliates are as follows:

	2003	2002	2001
(In thousands)			
United States	$67,023	$19,995	$14,863
Foreign	12,533	8,938	10,002
Total	$79,556	$28,933	$24,865

The provision for income taxes in the consolidated statements of income consists of the following components:

Fiscal Year	2003	2002	2001
(In thousands)			
Federal income taxes:			
Current	$29,378	$ 8,354	$6,497
Deferred	2,084	(603)	(972)
	31,462	7,751	5,525
State income taxes:			
Current	2,345	2,262	1,382
Deferred	263	(76)	(123)
	2,608	2,186	1,259
Foreign:			
Current	5,443	2,747	2,497
Deferred	(2,239)	(32)	425
	3,204	2,715	2,922
Total	$37,274	$12,652	$9,706

A reconciliation of the statutory U.S. federal tax rate (35.0%) and the effective income tax rate is as follows:

	2003	2002	2001
(In thousands)			
Provisions using statutory federal income tax rate	$27,844	$10,127	$8,703
State income taxes, net of federal tax benefit	1,695	1,421	775
Change in control costs	—	896	—
Basis difference PCG stock	7,048	—	—
Other, net	687	208	228
	$37,274	$12,652	$9,706

The components of the net current deferred income tax asset at fiscal year end are as follows:

	2003	2002
(In thousands)		
Uniforms	$ (174)	$ (156)
Allowance for doubtful accounts	484	508
Accrued vacation	1,143	1,023
Accrued liabilities	10,386	5,786
	$11,839	$7,161

The components of the net non-current deferred income tax asset at fiscal year end are as follows:

Fiscal Year	2003	2002
(In thousands)		
Depreciation	$(11,386)	$(2,454)
Deferred revenue	5,718	6,464
Deferred charges	5,340	2,929
Residual U.S. tax liability on repatriated earnings	(2,119)	(11,675)
Foreign deferred tax assets	7,474	4,902
Other, net	(47)	(47)
	$ 4,980	$ 119

The exercise of non-qualified stock options which have been granted under the Company's stock option plans gives rise to compensation which is includable in the taxable income of the applicable employees and deducted by the Company for federal and state income tax purposes. Such compensation results from increases in the fair market value of the Company's common stock subsequent to the date of grant. In accordance with Accounting Principles Board Opinion No. 25, such compensation is not recognized as an expense for financial accounting purposes and related tax benefits are credited directly to additional paid-in-capital.

The GEO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. Earnings Per Share

The table below shows the amounts used in computing earnings per share ("EPS") in accordance with SFAS No. 128 and the effects on income and the weighted average number of shares of potential dilutive common stock.

Fiscal Year	2003	2002	2001
(In thousands, except per share data)			
Net income	$45,268	$21,501	$19,379
Basic earnings per share:			
Weighted average shares outstanding	15,618	21,148	21,028
Per share amount	$ 2.90	$ 1.02	$ 0.92
Diluted earnings per share:			
Weighted average shares outstanding	15,618	21,148	21,028
Effect of dilutive securities:			
Employee and director stock options	211	216	233
Weighted average shares assuming dilution	15,829	21,364	21,261
Per share amount	$ 2.86	$ 1.01	$ 0.91

For fiscal 2003, options to purchase 735,600 shares of the Company's common stock with exercise prices ranging from $15.40 to $29.56 per share and expiration dates between 2006 and 2012 were outstanding at December 28, 2003, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

For fiscal 2002, options to purchase 784,600 shares of the Company's common stock with exercise prices ranging from $14.69 to $26.88 per share and expiration dates between 2006 and 2012 were outstanding at December 29, 2002, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

For fiscal 2001, options to purchase 510,000 shares of the Company's common stock with exercise prices ranging from $13.75 to $26.88 per share and expiration dates between 2005 and 2011 were outstanding at December 30, 2001, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

NOTE 13. Related Party Transactions with The Wackenhut Corporation

Related party transactions occurred in the past in the normal course of business between the Company and TWC. Such transactions included the purchase of goods and services and corporate costs for management support, office space, insurance and interest expense.

The Company incurred the following expenses related to transactions with TWC in the following years:

Fiscal Year	2003	2002	2001
(In thousands)			
General and administrative expenses	$1,750	$ 2,591	$ 2,831
Casualty insurance premiums	—	17,973	21,952
Rent	501	514	286
Net interest expense	—	32	49
	$2,251	$21,110	$25,118

General and administrative expenses represented charges for management and support services. TWC previously provided various general and administrative services to the Company under a Services Agreement, including payroll services, human resources support, tax services and information technology support services through December 31, 2002. Beginning January 1, 2003, the only service provided was for information technology support through year-end 2003. The Company began handling information technology support services internally effective January 1, 2004, and no longer relies on TWC for any services. All of the services formerly provided by TWC to the Company were pursuant to negotiated annual rates with TWC based upon the level of service to be provided under the Services Agreement. The Company believes that such rates were on terms no less favorable than the Company could obtain from unaffiliated third parties.

The Company also leased office space from TWC for its corporate headquarters under a non-cancelable operating lease that expires February 11, 2011. This lease was terminated effective July 19, 2003 as a result of the share purchase agreement.

NOTE 14. Stock Options

The Company has four stock option plans: the Wackenhut Corrections Corporation 1994 Stock Option Plan (First Plan), the Wackenhut Corrections Corporation Stock Option Plan (Second Plan), the 1995 Non-Employee Director Stock Option Plan (Third Plan) and the Wackenhut Corrections Corporation 1999 Stock Option Plan (Fourth Plan). All outstanding options vested immediately upon the Merger.

Under the First Plan, the Company may grant up to 897,600 shares of common stock to key employees and consultants. All options granted under this plan are exercisable at the fair market value of the common stock at the date of the grant, vest 100% immediately and expire no later than ten years after the date of the grant.

Under the Second Plan and Fourth Plan, the Company may grant options to key employees for up to 1,500,000 and 550,000 shares of common stock, respectively. Under the terms of these plans, the exercise price per share and vesting period is determined at the sole discretion of the Board of Directors. All options that have been granted under these plans are exercisable at the fair market value of the common stock at the date of the grant. Generally, the options vest and become exercisable ratably over a four-year period, beginning immediately on the date of the grant. However, the Board of Directors has exercised its discretion and has granted options that vest 100% immediately. All options under the Second Plan and Fourth Plan expire no later than ten years after the date of the grant.

Under the Third Plan, the Company may grant up to 60,000 shares of common stock to non-employee directors of the Company. Under the terms of this plan, options are granted at the fair market value of the common stock at the date of the grant, become exercisable immediately, and expire ten years after the date of the grant.

NOTE 15. Retirement and Deferred Compensation Plans

The Company has two noncontributory defined benefit pension plans covering certain of the Company's executives. Retirement benefits are based on years of service, employees' average compensation for the last five years prior to retirement and social security benefits. Currently, the plans are not funded. The Company purchased and is the beneficiary of life insurance policies for certain participants enrolled in the plans.

In 2001, the Company established non-qualified deferred compensation agreements with three key executives providing for fixed annual benefits ranging from $150,000 to $250,000 payable upon retirement at age 60 for a period of 25 years. In March 2002, both the executives and the Company agreed to amend the retirement agreements to provide for a lump sum payment at an accelerated retirement age of 55 and to enter into employment agreements upon a change in control.

The Merger between TWC and Group 4 Falck triggered change in control provisions in the three key executives' employment and retirement agreements. The employment agreements entitle the executives, if they remain employed by the Company for at least two years following the Merger, to twenty-four consecutive monthly payments equal, in total, to three times each executive's 2002 salary plus bonus. The Company paid approximately $3.1 million and $1.8 million related to the change in control provisions per the employment agreements in 2003 and 2002, respectively. The Company expects to payout approximately $1.3 million related to the change in control provisions per the employment agreements in 2004.

The GEO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition, the change in control accelerated the executive's eligibility for retirement from age 60 to 55 and provided for a one-time payment at age 55 to the executive based on the net present value of the benefit, as defined by the executive retirement agreement. The cost of these revised agreements is being charged to expense and accrued using a present value method over the expected remaining terms of employment. The charge to expense for the amended agreements for 2002 was $3.1 million. Currently, the plan is not funded. In January 2003, the agreements were amended to defer the retirement payment until the respective executives actually retire, no sooner than age 55.

The following table summarizes key information related to these pension plans and retirement agreements which includes information as required by SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The table illustrates the reconciliation of the beginning and ending balances of the benefit obligation showing the effects during the period attributable to each of the following: service cost, interest cost, plan amendments, termination benefits, actuarial gains and losses. The assumptions used in the Company's calculation of accrued pension costs are based on market information and the Company's historical rates for employment compensation and discount rates, respectively.

In accordance with SFAS 132, the Company has also disclosed contributions and payment of benefits related to the plan. There were no assets in the plan at December 28, 2003 or December 29, 2002. All changes as a result of the adjustments to the accumulated benefit obligation are included below and shown net of tax in the Consolidated Statement of Shareholders' Equity and Comprehensive Income. There were no significant transactions between the employer or related parties and the plan during the period.

	2003	2002
Change in Projected Benefit Obligation		
Projected Benefit Obligation, Beginning of Year	$ 9,139	$ 5,790
Service Cost	253	232
Interest Cost	768	471
Plan Amendments	2,293	—
Termination Benefits	—	1,959
Actuarial Loss	1,025	719
Benefits Paid	(70)	(32)
Projected Benefit Obligation, End of Year	$ 13,408	$ 9,139
Change in Plan Assets		
Plan Assets at Fair Value, Beginning of Year	$ —	$ —
Actual Return on Plan Assets	—	—
Company Contributions	70	32
Benefits Paid	(70)	(32)
Plan Assets at Fair Value, End of Year	$ —	$ —
Reconciliation of Prepaid (Accrued) and Total Amount Recognized		
Funded Status of the Plan	$(13,408)	$(9,139)
Unrecognized Prior Service Cost	2,220	1,005
Unrecognized Net Loss	3,226	2,379
Accrued Pension Cost	$ (7,962)	$(5,755)
Prepaid Benefit Cost	$ —	$ —
Accrued Benefit Liability	(11,442)	(7,567)
Intangible Asset	2,220	1,005
Accumulated Other Comprehensive Income	1,260	807
Total Recognized	$ (7,962)	$(5,755)

	Fiscal 2003	Fiscal 2002
Components of Net Periodic Benefit Cost		
Service Cost	$ 253	$ 232
Interest Cost	768	471
Amortization of:		
Unrecognized Prior Service Cost	1,079	314
Unrecognized Net Loss (Gain)	178	88
Net Periodic Pension Cost	$2,278	$1,105
Curtailment Charge	—	3,256
Net Periodic Pension Cost	$2,278	$4,361
Weighted Average Assumptions for Expense		
Discount Rate	6.25%	6.75%
Expected Return on Plan Assets	N/A	N/A
Rate of Compensation Increase	5.50%	5.50%

The Company has established a deferred compensation agreement for non-employee directors, which allow eligible directors to defer their compensation in either the form of cash or stock. Participants may elect lump sum or monthly payments to be made at least one year after the deferral is made or at the time the participant ceases to be a director. The Company recognized total compensation expense under this plan of $0.1 million, $0 and $0.1 million for 2003, 2002, and 2001, respectively. Payouts under the plan were $0 and $0.1 million in 2003 and 2002 respectively. The liability for the deferred compensation was $0.5 million and $0.4 million at year-end 2003 and 2002, respectively, and is included in “Accrued expenses” in the accompanying consolidated balance sheets.

The Company also has a non-qualified deferred compensation plan for employees who are ineligible to participate in its qualified 401(k) plan. Eligible employees may defer a fixed percentage of their salary, which earns interest at a rate equal to the prime rate less 0.75%. The Company matches employee contributions up to $400 each year based on the employee’s years of service. Payments will be made at retirement age of 65 or at termination of employment. The Company recognized expense of $0.1 million, $0.2 million and $0.3 million in 2003, 2002, and 2001, respectively. The liability for this plan at year-end 2003 and 2002 was $1.6 million and $1.3 million, respectively, and is included in “Accrued expenses” in the accompanying consolidated balance sheets.

The GEO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. Selected Quarterly Financial Data (Unaudited)

The Company's selected quarterly financial data for the fiscal years ended December 28, 2003 and December 29, 2002, is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share data)				
2003				
Revenues	$145,254	$153,207	$157,848	$161,181
Operating income	$ 9,706	$ 9,946	$ 3,123	$ 8,981
Net income	$ 5,172	$ 6,299	$ 30,368	$ 3,429
Basic earnings per share	$ 0.24	$ 0.30	$ 2.86	$ 0.37
Diluted earnings per share	$ 0.24	$ 0.29	$ 2.79	$ 0.35
2002				
Revenues	$140,182	$141,192	$141,706	$145,532
Operating income	$ 5,918	$ 7,483	$ 7,613	$ 6,862
Net income	$ 5,183	$ 5,405	$ 5,358	$ 5,555
Basic earnings per share	$ 0.25	$ 0.26	$ 0.25	$ 0.26
Diluted earnings per share	$ 0.24	$ 0.25	$ 0.25	$ 0.26

The third quarter 2003 results include a pre-tax gain of approximately $61.0 million for the sale of the UK joint venture (See Note 10), a pre-tax charge of approximately $5.0 million related to the Jena, Louisiana lease (See Note 8) and a pre-tax charge of approximately $2.0 million related to the write-off of deferred financing fees from the extinguishment of debt. Earnings per share for the third and fourth quarter of 2003 reflect lower weighted average shares outstanding due to the purchase of the 12,000,000 shares from Group 4 Falck in July 2003 (See Note 1).

The GEO Group, Inc.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
The GEO Group, Inc.

We have audited the accompanying consolidated balance sheets of The GEO Group, Inc. (formerly Wackenhut Corrections Corporation) as of December 28, 2003 and December 29, 2002, and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for each of the years then ended. The consolidated statements of income, cash flows and shareholders' equity and comprehensive income of the Company for the year ended December 30, 2001 were audited by other auditors who have ceased operations and whose report dated February 6, 2002 expressed an unqualified opinion on those statements. Our audit also included the 2003 and 2002 financial information included in the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The GEO Group, Inc. at December 28, 2003 and December 29, 2002, and the consolidated results of their operations and cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related 2003 and 2002 financial information included in the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective December 31, 2001, the Company changed its method of accounting for goodwill and other intangible assets.

As discussed above, the consolidated statements of income, cash flows and shareholders' equity and comprehensive income of the Company for the year ended December 30, 2001 were audited by other auditors who have ceased operations. As described in Note 2, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards (Statement) No. 142, *Goodwill and Other Intangible Assets,* which was adopted by the Company as of December 31, 2001. Our audit procedures with respect to the disclosures in Note 2 with respect to 2001 included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill and goodwill related to equity investees to our underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings-per-share amounts. In our opinion, the disclosures for 2001 in Note 2 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

ERNST &YOUNG LLP

West Palm Beach, Florida
February 4, 2004

The GEO Group, Inc.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

This report is a copy of a report previously issued by Arthur Andersen LLP. The report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this form 10-K.

To Wackenhut Corrections Corporation:

We have audited the accompanying consolidated balance sheets of Wackenhut Corrections Corporation (a Florida corporation) and subsidiaries as of December 30, 2001 and December 31, 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the three fiscal years in the period ended December 30, 2001. These financial statements are the responsibility of our management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wackenhut Corrections Corporation and subsidiaries as of December 30, 2001 and December 31 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2001 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments.

ARTHUR ANDERSEN LLP

West Palm Beach, Florida,
February 6, 2002

The GEO Group, Inc.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of The GEO Group, Inc.:

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. They include amounts based on judgments and estimates.

Representation in the consolidated financial statements and the fairness and integrity of such statements are the responsibility of management. In order to meet management's responsibility, the Company maintains a system of internal controls and procedures and a program of internal audits designed to provide reasonable assurance that our assets are controlled and safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon in the preparation of financial statements.

The consolidated financial statements have been audited by Ernst & Young LLP, independent certified public accountants, whose appointment was ratified by our shareholders. Their report expresses a professional opinion as to whether management's consolidated financial statements considered in their entirety present fairly, in conformity with accounting principles generally accepted in the United States, our financial position and results of operations. Their audit was conducted in accordance with auditing standards generally accepted in the United States. As part of this audit, Ernst & Young LLP considered our system of internal controls to the degree they deemed necessary to determine the nature, timing, and extent of their audit tests which support their opinion on the consolidated financial statements.

The Audit Committee of the Board of Directors meets periodically with representatives of management, the independent certified public accountants and our internal auditors to review matters relating to financial reporting, internal accounting controls and auditing. Both the internal auditors and the independent certified public accountants have unrestricted access to the Audit Committee to discuss the results of their reviews.

George C. Zoley
Chairman and Chief Executive Officer

Wayne H. Calabrese
Vice Chairman, President and Chief Operating Officer

John G. O'Rourke
Senior Vice President
Chief Financial Officer and Treasurer

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Atlantic Shores Healthcare, Inc.

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Vice President, Corporate Counsel
and Assistant Secretary

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Vice President, International Services

Richard H. Clark
Vice President, Eastern Region

Matthew J. DenAdel
Vice President, Pricing

Brian R. Evans
Vice President, Accounting
and Chief Accounting Officer

Dale W. Frick
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James H. Reynolds
Vice President, Human Resources

Neil E. Schwartzman
Vice President and Chief Information Officer

Cloid L. Shuler
Vice President, Business Development

Gregory M. Skeens
Vice President, Administration

Carlos A. Valdes-Fauli
Vice President, Design Services

David N. T. Watson
Vice President, Finance and Treasurer

J.D. Williams
Vice President, Western Region

Corporate and Shareholder Information

Corporate and shareholder information and a copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained free of charge by contacting David N. T. Watson, Vice President, Finance and Treasurer at The GEO Group, Inc. One Park Place, 621 NW 53rd Street, Suite 700, Boca Raton, Florida 33487 or by visiting the Company's website at www.thegeogroupinc.com

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Corporate Counsel

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Notice of Annual Meeting

The Annual Shareholder Meeting for The Geo Group, Inc. will be held at The Boca Raton Resort & Club, 501 E. Camino Real, Boca Raton, Florida 33432-6127 at 9:00 a.m. on May 6, 2004.

Forward-Looking Information

This report and the documents incorporated by reference herein contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking" statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are "forward-looking" statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" or "continue" or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or "cautionary statements," include, but are not limited to: (1) our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;(2) the instability of foreign exchange rates, exposing us to currency risks in Australia, New Zealand and South Africa, or other countries in which we may choose to conduct our business; (3) an increase in labor rates beyond that which was budgeted; (4) our ability to expand our correctional and mental health services; (5) our ability to win management contracts for which we have submitted proposals and to retain existing management contracts; (6) our ability to raise new project development capital given the often short-term nature of the customers' commitment to use newly developed facilities;(7) our ability to find customers for our Jena, Louisiana Facility and our McFarland, California Facility and/or to sub-lease or coordinate the sale of the facilities with their owner, Correctional Properties Trust, which we refer to as CPV; (8) our ability to accurately project the size and growth of the domestic and international privatized corrections industry; (9) our ability to estimate the government's level of utilization of privatization; (10) our ability to obtain future financing at competitive rates; (11) our exposure to general liability and workers' compensation insurance costs; (12) our ability to maintain occupancy rates at our facilities; (13) our ability to manage health related insurance costs and medical malpractice liability claims; (14) the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us; (15) our ability to effectively internalize functions and services previously provided by The Wackenhut Corporation, our former parent company; and (16) those factors disclosed under "Risk Factors" and elsewhere in this report, including, without limitation, in conjunction with the forward-looking statements included in this report.

The GEO Group, Inc.

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